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(H.N.S.C. No. 104-6): National Defe...

ON
NATIONAL DEFENSE AUTHORIZATION ACT
FOR FISCAL YEAR 1996—H.R. 1530

AND
OVERSIGHT OF PREVIOUSLY AUTHORIZED
PROGRAMS

BEFORE THE
COMMITTEE ON NATIONAL SECURITY
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTH CONGRESS
FIRST SESSION

MILITARY READINESS SUBCOMMITTEE HEARINGS
ON
TITLE III—OPERATION AND
MAINTENANCE

HEARINGS HELD
MARCH 7, 9, 16, 22, 23, AND 24, 1995



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104TH CONGRESS
1ST SESSION

H. R. 1530

I

To authorize appropriations for fiscal year 1996 for military activities of the Department of Defense, to prescribe military personnel strengths for fiscal year 1996, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 2, 1995

Mr. SPENCE (for himself and Mr. DELLUMS) (both by request) introduced the following bill; which was referred to the Committee on National Security

A BILL

To authorize appropriations for fiscal year 1996 for military activities of the Department of Defense, to prescribe military personnel strengths for fiscal year 1996, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the "National Defense Au-
5 thorization Act for Fiscal Year 1996".

* * * * *

15 **TITLE III—OPERATION AND**
16 **MAINTENANCE**
17 **Subtitle A—Authorization of**
18 **Appropriations**

19 **SEC. 301. OPERATION AND MAINTENANCE FUNDING.**

20 (a) FISCAL YEAR 1996.—Funds are hereby author-
21 ized to be appropriated for fiscal year 1996 for the use
22 of the Armed Forces of the United States and other activi-
23 ties and agencies of the Department of Defense, for ex-
24 penses, not otherwise provided for, for operation and
25 maintenance, in amounts as follows:

•HR 1530 IH

- 1 (1) For the Army, 18,184,736,000.
- 2 (2) For the Navy, \$21,225,710,000.
- 3 (3) For the Marine Corps, \$2,269,722,000.
- 4 (4) For the Air Force, \$18,256,579,000.
- 5 (5) For Defense-wide activities,
- 6 \$10,366,782,000.
- 7 (6) For the Army Reserve, \$1,068,591,000.
- 8 (7) For the Naval Reserve, \$826,042,000.
- 9 (8) For the Marine Corps Reserve,
- 10 \$90,283,000.
- 11 (9) For the Air Force Reserve, \$1,485,947,000.
- 12 (10) For the Army National Guard,
- 13 \$2,304,108,000.
- 14 (11) For the Air National Guard,
- 15 \$2,712,221,000.
- 16 (12) For the Defense Inspector General,
- 17 \$138,226,000.
- 18 (13) For Drug Interdiction and Counter-drug
- 19 Activities, Defense-wide, \$680,432,000.
- 20 (14) For the United States Court of Appeals
- 21 for the Armed Forces, \$6,521,000.
- 22 (15) For Environmental Restoration Defense,
- 23 \$1,622,200,000.
- 24 (16) For Medical Programs, Defense,
- 25 \$9,865,525,000.

1 (17) For Humanitarian Assistance,
2 \$79,790,000.

3 (18) For Former Soviet Union Threat Reduc-
4 tion, \$371,000,000.

5 (19) For Contributions for International Peace-
6 keeping and Peace Enforcement Activities, Defense,
7 \$65,000,000.

8 (20) For support for the 1996 Summer Olym-
9 pics, \$15,000,000.

10 (b) FISCAL YEAR 1997.—Funds are hereby author-
11 ized to be appropriated for fiscal year 1997 for the use
12 of the Armed Forces of the United States and other activi-
13 ties and agencies of the Department of Defense, for ex-
14 penses, not otherwise provided for, for operation and
15 maintenance, in amounts as follows:

16 (1) For the Army, \$17,628,264,000.

17 (2) For the Navy, \$20,254,507,000.

18 (3) For the Marine Corps, \$2,285,047,000.

19 (4) For the Air Force, \$18,346,851,000.

20 (5) For the Defense-wide activities,
21 \$10,492,192,000.

22 (6) For the Army Reserve, \$1,033,630,000.

23 (7) For the Naval Reserve, \$864,712,000.

24 (8) For the Marine Corps Reserve,
25 \$95,272,000.

1 (9) For the Air Force Reserve, \$1,059,030,000.

2 (10) For the Army National Guard,
3 \$2,274,435,000.

4 (11) For the Air National Guard,
5 \$2,773,343,000.

6 (12) For the Defense Inspector General,
7 \$138,060,000.

8 (13) For Drug Interdiction and Counter-drug
9 Activities, Defense-wide, \$700,756,000.

10 (14) For the United States Court of Appeals
11 for the Armed Forces, \$6,586,000.

12 (15) For Environmental Restoration Defense,
13 \$1,622,200,000.

14 (16) For Medical Programs, Defense,
15 \$9,720,509,000.

16 (17) For Humanitarian Assistance,
17 \$71,633,000.

18 (18) For Former Soviet Union Threat Reduc-
19 tion, \$364,400,000.

20 (19) For Contributions for International Peace-
21 keeping and Peace Enforcement Activities, Defense,
22 \$100,000,000.

23 **SEC. 302. WORKING CAPITAL FUNDS.**

24 (a) FISCAL YEAR 1996.—Funds are hereby author-
25 ized to be appropriated for fiscal year 1996 for the use

1 of the Armed Forces of the United States and other activi-
2 ties and agencies of the Department of Defense for provid-
3 ing capital for working capital and revolving funds, in
4 amounts as follows:

5 (1) For the Defense Business Operations Fund,
6 \$878,700,000.

7 (2) For the National Defense Sealift Fund,
8 \$974,220,000.

9 (b) FISCAL YEAR 1997.—Funds are hereby author-
10 ized to be appropriated for fiscal year 1997 for the use
11 of the Armed Forces of the United States and other activi-
12 ties and agencies of the Department of Defense for provid-
13 ing capital for working capital and revolving funds, for
14 the National Defense Sealift Fund, \$913,402,000.

15 **SEC. 303. REPEAL OF LIMITATION ON ACTIVITIES OF THE**
16 **DEFENSE BUSINESS OPERATIONS FUND.**

17 Section 316 of the National Defense Authorization
18 Act for Fiscal Years 1992 and 1993 (10 U.S.C. 2208
19 note) is amended—

20 (1) by striking out “(a)” and the second sen-
21 tence in subsection (a); and

22 (2) by repealing subsection (b).

1 SEC. 304. AMENDMENTS RELATING TO THE READY RE-
2 SERVE FORCE COMPONENT OF THE READY
3 RESERVE FLEET.

4 Section 2218 of title 10, United States Code is
5 amended—

6 (1) in subsection (c)—

7 (A) by striking out “and” at the end of
8 subparagraph (C);

9 (B) by striking out the period at the end
10 of subparagraph (D) and inserting “; and” in
11 lieu thereof; and

12 (C) by adding the following new subpara-
13 graph at the end thereof:

14 “(E) expenses of the National Defense Re-
15 serve Fleet, as established by section 11 of the
16 Merchant Ship Sales Act of 1946 (50 U.S.C.
17 App. 1744).”; and

18 (2) in subsection (i), by striking out “Nothing”
19 and inserting in lieu thereof “Except as provided in
20 subsection (c)(1)(E), nothing”.

21 **Subtitle B—Other Matters**

22 SEC. 321. TESTING OF THEATER MISSILE DEFENSE INTER-
23 CEPTORS.

24 Section 237(a) of the National Defense Authorization
25 Act for Fiscal Year 1994 (Public Law 103-160; 107 Stat.
26 1600) is amended to read as follows:

1 “(a) TESTING OF THEATER MISSILE DEFENSE
2 INTERCEPTORS.—The Secretary of Defense may not ap-
3 prove a theater missile defense interceptor program pro-
4 ceeding beyond the Low-Rate Initial Production until the
5 Secretary certifies to the congressional defense committees
6 successful completion of Initial Operational Test and Eval-
7 uation (IOT&E) in which sufficient flight tests, involving
8 multiple interceptors and multiple targets in the presence
9 of realistic countermeasures, have been conducted, the re-
10 sults of which demonstrate the achievement by the inter-
11 ceptors of the weapons systems performance thresholds
12 specified in the system baseline document established pur-
13 suant to section 2435(a)(1)(A) of title 10, United States
14 Code, before the program entered engineering and manu-
15 facturing systems development. Modeling and simulation
16 validated by ground and flight testing may be used to aug-
17 ment live fire testing to demonstrate weapons system per-
18 formance goals.”.

19 SEC. 322. ESTABLISHMENT OF A DEPARTMENT OF DE-
20 FENSE LABORATORY REVITALIZATION DEM-
21 ONSTRATION PROGRAM.

22 (a) PROGRAM REQUIRED.—The Secretary of Defense
23 shall carry out a Department of Defense Laboratory Revi-
24 talization Demonstration Program. Under the program
25 the Secretary may carry out minor military construction

1 projects in accordance with subsection (b) and other appli-
2 cable law to improve Department of Defense laboratories
3 covered by the program.

4 (b) INCREASED MAXIMUM AMOUNTS APPLICABLE TO
5 MINOR CONSTRUCTION PROJECTS.—For purpose of any
6 military construction project carried out under the pro-
7 gram—

8 (1) the amount provided in subsection (a)(1) of
9 section 2805 of title 10, United States Code, shall
10 be deemed to be \$3,000,000;

11 (2) the amount provided in subsection (b)(1) of
12 such section shall be deemed to be \$1,500,000; and

13 (3) the amount provided in subsection (c)(1) of
14 such section shall be deemed to be \$1,000,000.

15 (c) DESIGNATION OF COVERED LABORATORIES.—
16 Not later than 30 days before commencing the program,
17 the Secretary shall designate the Department of Defense
18 laboratories that are to be covered by the program and
19 notify Congress of the laboratories so designated. Only the
20 designated laboratories may be covered by the program.

21 (d) REPORT.—Not later than September 30, 1999,
22 the Secretary shall submit to Congress a report on the
23 program. The report shall include the Secretary's conclu-
24 sions and recommendations regarding the desirability and
25 feasibility of extending the authority set forth in sub-

1 section (b) to cover all Department of Defense labora-
2 tories.

3 (e) EXCLUSIVITY OF PROGRAM.—Nothing in this sec-
4 tion may be construed to limit any other authority pro-
5 vided by law for any military construction project at a De-
6 partment of Defense laboratory covered by the program.

7 (f) DEFINITIONS.—In this section:

8 (1) The term “laboratory” includes—

9 (A) a research, engineering, and develop-
10 ment center;

11 (B) a test and evaluation activity owned,
12 funded, and operated by the Federal Govern-
13 ment through the Department of Defense; and

14 (C) a supporting facility of a laboratory.

15 (2) The term “supporting facility”, with respect
16 to a laboratory, means any building or structure
17 that is used in support of research, development,
18 test, and evaluation at a laboratory.

19 (3) The term “Department of Defense labora-
20 tory” does not include a contractor owned labora-
21 tory.

22 (g) EXPIRATION OF AUTHORITY.—The Secretary
23 may not carry out the program after September 30, 2000.

* * * * *

1996 NATIONAL DEFENSE AUTHORIZATION REQUEST

HOUSE OF REPRESENTATIVES, COMMITTEE ON NATIONAL
SECURITY, MILITARY READINESS SUBCOMMITTEE, AND
MILITARY PERSONNEL SUBCOMMITTEE,

Washington, DC, Tuesday, March 7, 1995.

The subcommittees met, pursuant to call, at 2:30 p.m., in room 2118, Rayburn House Office Building, Hon. Herbert H. Bateman (chairman of the subcommittee) presiding.

STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, MILITARY READINESS SUBCOMMITTEE

Mr. BATEMAN. Thank you very much for giving us your attention so promptly. Let me advise our panel of witnesses that I just got a call from the floor. We have about 3 minutes left on a 10-minute debate on a motion to recommit. That will be followed by a vote, which will be followed by a vote on final passage.

With your indulgence, I am going to suggest that the committee recess, do its voting and then get back here as quickly as possible—I would estimate in something like 10 to 15 minutes.

I hope that is agreeable and does not unduly inconvenience the witnesses, but I think that is better than us to start and then have two very rapid interruptions. With that, I suggest to the committee we go do the voting and then get back as quickly as we possibly can.

[Recess.]

Mr. BATEMAN. The subcommittees will please come to order. Today the Subcommittees on Military Readiness and Military Personnel begin what will be a series of hearings focusing on force readiness and military personnel issues as part of their deliberations on the fiscal year 1996 DOD budget.

Readiness issues have gained prominence in recent years as defense budgets and force structures have declined. At the same time, the pace of operations has increased. Those concerns came to the forefront late last year with reports of readiness shortfalls being experienced by each service in fiscal year 1994. As highlighted in Chairman Spence's readiness report, training in some instances was canceled or deferred. Planned maintenance of weapons, equipment, and real property was not accomplished. Spare parts purchases were unaffordable and quality of life suffered.

Many Army divisions were reporting degraded readiness levels. Navy surface combatants' training readiness had declined from the previous year. Navy and Marine Corps aviation squadrons had to

be grounded with planes bagged; the first time in memory of many senior naval personnel that such action was taken.

In the Air Force, 13 of 21 of its flying weapons systems exceed the Air Force standards of 120 days TDY. These problems were not solely the result, as some have suggested, of fourth quarter funding shortfalls due to unfunded contingency operations.

Some operations contribute to and exacerbate readiness problems. As defense budgets have declined, the services have started each fiscal year underfunded, having to balance fewer resources over many requirements. In fact, DOD officials have stated that there would have been readiness problems in fiscal year 1994 even without contingency operations.

The services have three fundamental requirements. First, to ensure its forces are prepared to fight and win two nearly simultaneous major regional conflicts. Such preparation is directly tied to the ability of each service to train its people and units as well as the ability to maintain equipment.

Second, the services must be prepared to respond to various operations other than war.

Finally, the services have a responsibility to provide a quality of life to their service people and their families which acknowledge the demands on them and sacrifices made by these men and women who serve in our Armed Forces.

The services, in seeking to meet these requirements, have been walking a tightrope as they have tried to balance the combination of declining defense budgets, a shrinking force structure, and a high OPTEMPO.

Balancing diminishing resources, funds, and personnel across many requirements is stressing the force and adversely impacting readiness and quality of life. Today's first panel of witnesses will provide testimony that will illustrate the difficulties of balancing requirements in a high OPTEMPO, resource-constrained environment.

Reaching a balance at the division, wing, or fleet level requires very tough choices. Choices such as whether to train or not; how to train; how much to train; or when to train; buy spare parts or delay procurement of spare parts; or use up go-to-war inventories on the premise that funds will be available later to replenish stocks before an operation requires their use.

Divert military manpower to perform tasks previously performed by civilians at the expense of training or accept degraded base operations. Repair soldiers/family housing or use funds for training for other purposes. Work maintenance personnel longer or harder, or put equipment in storage to reduce the workload.

The high Personnel Operation TEMPO, or PERSTEMPO, is taking a toll. The DOD Task Force on Readiness report released last summer acknowledged that U.S. troops are "running too hard." They are still running.

Service men and women are being deployed away from home in excess of service standards. Maintenance personnel are having to work longer and harder to maintain equipment. Anecdotal evidence points to frustrations among the ranks with many expressing the desire to leave the service.

The second panel will focus on how the high pace of operations affect the troops and their families; especially how this high PERSTEMPO presses the force and how these stresses manifest themselves.

I urge the subcommittees and the witnesses not to overemphasize today as the basis for judging readiness. Readiness should not be regarded as a snapshot, but as a motion picture. Said another way, we must be concerned about maintaining readiness as much or more than momentary peaks or valleys on a readiness chart.

Before we begin, let me yield to the gentleman from Virginia, the ranking member of the Readiness Subcommittee for any opening remarks he may wish to make. I now call on Mr. Sisisky.

STATEMENT OF HON. NORMAN SISISKY, A REPRESENTATIVE FROM VIRGINIA, RANKING MINORITY MEMBER, MILITARY READINESS SUBCOMMITTEE

Mr. SISISKY. Thank you, Mr. Chairman. I join with Chairman Bateman in welcoming you to this hearing today. There is no doubt that the readiness of our forces today and tomorrow is important to us.

While we received some testimony from the top, your views on readiness, as seen from your perspective, and as it relates to your respective commands helps to complete our picture of the readiness landscape.

The insights you have gained from the awesome task of maintaining the capability to accomplish your assigned missions during a period of high OPTEMPO and burdened with the personnel turbulence and budget uncertainty should be instructive for all of us here today.

There is no doubt that you have been good stewards. I congratulate you for what you have done and continue to do. The fact that this is a joint hearing with the Personnel Subcommittee reminds us that personnel, personnel are truly key to the readiness.

I look forward to hearing your testimony and response to questions from members of these subcommittees. I welcome you again.

Mr. BATEMAN. Thank you, Mr. Sisisky. In the absence of Mr. Dornan, the chairman of the Military Personnel Subcommittee, let me call on the ranking member of that subcommittee, another gentleman from Virginia, Mr. Pickett.

STATEMENT OF HON. OWEN PICKETT, A REPRESENTATIVE FROM VIRGINIA, RANKING MINORITY MEMBER, MILITARY PERSONNEL SUBCOMMITTEE

Mr. PICKETT. Thank you, Mr. Chairman. I join you in welcoming our witnesses today. We learned to our regret in the late 1970's and early 1980's that unless our military leaders pay close attention to the pace of operations, the length of deployments, and quality of life factors, the men and women of the services will not enlist or continue to reenlist in the numbers and quality that our military requires.

As a nation, we cannot afford to repeat the mistakes of the past. So, this hearing is an important one. There is no doubt that the pace of operations over the past few years has been extremely high.

What is less clear is the extent to which the military services, faced with reduced force levels and resources, have been able to maintain readiness while keeping deployment TEMPO's within established standards and still continue to provide service members and their families an adequate quality of life.

I know that the Navy leadership has been concerned enough about the impact of high OPTEMPO on the Navy to make major changes in the rules affecting many aspects related to deployment. Reduce Personnel TEMPO and improve quality of life are among these goals.

Other service departments also have high levels of deployment where military members are spending more than half their time away from home. We must all be concerned about the effect of such conditions on recruitment, retention, and the quality of our forces.

I look forward to the testimony of each witness here today. If more needs to be done for our military members, we depend upon them to provide us their informed recommendations. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Pickett. The Chair will reserve an opportunity for Mr. Dornan upon his arrival, at a later point, to make any such opening statement as he chooses to make or either to submit one for the record.

Let me now welcome our distinguished witnesses and thank them for their being here for their testimony today. They are on my left, Adm. William J. Flanagan, Jr., Commander-in-Chief, U.S. Atlantic Fleet, Norfolk, VA; Lt. Gen. Paul E. Funk, Commanding General, III Army Corps, Fort Hood, TX; Maj. Gen. James J. Jones, Commanding General, 2d Marine Division, Marine Forces Atlantic, Camp Lejeune, NC; and Brig. Gen. John R. Dallager, Commander, 52d Fighter Wing, Spangdahlem, Germany, who is currently Joint Task Force Commander of Operation Provide Comfort at Incirlik, Turkey.

We will begin our testimony today with Admiral Flanagan and then we will continue in the order in which our panel were introduced. Admiral Flanagan.

**STATEMENT OF ADM. WILLIAM J. FLANAGAN, JR.,
COMMANDER-IN-CHIEF, U.S. ATLANTIC FLEET, NORFOLK, VA**

Admiral FLANAGAN. Thank you, Mr. Chairman. I have a prepared statement that I would like to have entered into the record, sir, if I may and I will summarize in the interest of time.

Mr. BATEMAN. May I say that all of your prepared statements will be made a part of the record. It is not regarded as bad form for you to summarize them. Thank you.

Admiral FLANAGAN. Thank you, Mr. Chairman.

1994 was a very busy year for our sailors and marines. As our Nation called up its Active and Reserve maritime services to represent and protect our national interests in many parts of the globe, your Atlantic Fleet naval forces were ready to meet every commitment that came our way.

Whether it was Seabees building tent cities in Cuba, sailors on a destroyer performing humanitarian rescues in the Caribbean, an aircraft carrier steaming through the Suez to respond to a develop-

ing crisis in Iraq, Navy and Marine pilots flying missions over Bosnia, or Reserve Forces providing support.

Atlantic Fleet sailors and marines were able to respond to this wide variety of tasking—in the Caribbean; in the Adriatic; off the coast of Somalia; in the Red Sea and the Persian Gulf; and in other such traditional forward deployment areas such as the Mediterranean, because members of this committee and the American people have provided us with the necessary tools and the training to do our job.

I am sure you will agree that the fleet sailors and fleet marines are among the finest young people our country has to offer. Their duty is to serve. In that capacity, they expect to deploy in our ships, on our planes, and on our submarines. They expect to face the rigors of military service.

This is part of their service to our country. It is reasonable and an expected personal obligation of life that they have chosen. At the same time, these men and women expect to be given the tools necessary to do their jobs, properly maintained and of sufficient capability to preclude unnecessary risk.

Similarly, they expect that we will provide them with a reasonable quality of life between deployments and a place in which to train and to work that will allow them to give the best of themselves.

The Atlantic Fleet, we are committed to no less. I thank you for the opportunity to represent these wonderful men and women. I am ready and happy to answer your questions today.

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HOUSE NATIONAL SECURITY COMMITTEE

STATEMENT OF
ADMIRAL WILLIAM J. FLANAGAN, JR.
COMMANDER IN CHIEF
U.S. ATLANTIC FLEET
BEFORE THE
HOUSE NATIONAL SECURITY COMMITTEE
ON
STRESSING THE FORCE:
IMPACTS ON READINESS

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Thank you very much, Mr. Chairman. I am pleased to appear before your committee.

1994 was a busy year for our Sailors and Marines. As our nation called upon its Active and Reserve maritime services to represent and protect our national interests in many parts of the globe your Atlantic Fleet naval forces were ready to meet every commitment that came our way. Whether it was Seabees building tent cities in Cuba, Destroyer Sailors performing humanitarian rescues in the Caribbean, an aircraft carrier steaming through the Suez to respond to a developing crisis in Iraq, Navy and Marine pilots flying missions over Bosnia, or Reserve Forces providing contributing support.

Atlantic Fleet Sailors and Marines were able to respond to this wide variety of tasking--in the Caribbean; in the Adriatic; off the coast of Somalia; in the Red Sea and Persian Gulf; and in others areas of traditional forward deployment such as the Mediterranean, because Members of this Committee and the American people have provided us with the necessary tools and training to do the job.

As the Naval Component for three CINCs and a force provider to two others, the Atlantic Fleet expects to be fully employed

and thus we prepare our forces in depth to answer the call. We have in-place a scheme of maneuver that allows us to rotate forces to meet the needs of the Unified Commanders, while at the same time providing for the maintenance, training and time at home required to keep our forces ready. The preparation of aircraft carrier battle groups, amphibious ready groups, Marine expeditionary units, and of other operational forces must be carefully planned and executed within the limits of the budget.

Those are the requirements outlined for us in Title X, and a mission that we execute with a great deal of precision and with very little excess capacity. Thus when additional contingencies arise, they are bound to have a ripple effect throughout other areas of our operations. The humanitarian missions in the Caribbean, Haiti and Cuba are prime examples.

As literally tens of thousands of Cuban and Haitian migrants took to the sea in rafts and makeshift boats, naval forces responded. To prevent what could have been widespread bloodshed in Haiti, naval forces responded. To stymie a despot's move in Southern Iraq that threatened another disruption of stability in the Persian Gulf, naval forces responded. And to limit the spread of a centuries old conflict in the Balkans, naval forces responded.

You will recall that only 12 days after USS Inchon returned from a six month deployment, we ordered her to the Caribbean and recalled her Marine Expeditionary Unit as the most ready maritime force in this theater to deploy with her. We pulled the aircraft carrier USS Dwight D. Eisenhower out of her final advanced at-sea exercise and loaded the 10th Mountain Division Army forces for Operation Support Democracy. And we deployed the aircraft carrier USS America with special operations forces onboard. At virtually the same time, we maintained a heightened tempo of operations in the Adriatic and in the Persian Gulf. And as the tension in the Caribbean was eased, we were left with the huge job of providing complete care for thousands of Haitians and Cubans at our naval base in Guantanamo Bay.

I am pleased to report to you that your Sailors and Marines responded to each challenge--overcoming all obstacles--in a manner that makes all Americans proud. Our men and women met every commitment largely without complaint because they knew it was their duty to the citizens they serve. I am proud to be associated with the men and women of the Atlantic Fleet and with the families who support them.

This ability to provide flexible response was not without cost however to either our equipment or to our people. Particularly because of when these contingencies occurred, we had

to make fiscal adjustments that otherwise would not have been sound long term business practices. The fact of the matter is we have very little financial flexibility. The cost of running the fleet consumes all of the available resources, and thus when we face contingency operations the likes of which we have experienced in the Caribbean, we are placed in a rob Peter to pay Paul situation.

Our first priority is to provide our Sailors and Marines the best opportunity to return home safely having answered their country's call. Our cost of doing business then, is to meet that goal by conducting the necessary training for rotational forces so that we are properly equipped to respond successfully. This is a complex business operation that spans on average, a two year period from the end of one deployment to the beginning of another. And while we do this, we must at the same time provide for a reasonable quality of life at home.

Because 1994 contingencies came primarily in the last quarter of the fiscal year, we had to pay for these operations with money allocated to other accounts. The funds we used came from those previously programmed to maintain our ships, perform necessary maintenance to our shore property, and do sorely needed base improvements. Some examples will illustrate the reapportionment our 1994 funds:

--We curtailed the flying hours of Carrier Airwing

SEVENTEEN, an airwing that just returned from

deployment, temporarily laying up their airplanes.

--We deferred into the current fiscal year the depot level

maintenance for six of our Atlantic Fleet ships.

--We postponed maintenance to facilities at our naval bases

up and down the east coast.

Against this backdrop of adjustments resulting from 1994

contingencies, however, we have been able to ensure that fleet

units and staffs remain ready to meet all scheduled deployments

to the three Unified CINC theaters that we support.

Before closing, I must address the impacts future

contingencies could have upon our people. I'm sure you will

agree that the Fleet Sailor and the Fleet Marine are among the

finest young people our country has to offer. Their duty is to

serve, and in that capacity they expect to deploy on our ships

and in our planes and submarines, and they expect to face the

rigors of military service. That is part of their service to our

country and it is a reasonable and expected personal obligation

of the life they have chosen. At the same time, these men and

women expect that we will give them the necessary tools to do

their jobs, properly maintained and of sufficient capability to

preclude unnecessary risk. Similarly, they expect that we will

provide them a reasonable quality of life at home between deployments, and a place in which to train and to work that will allow them to give the best of themselves. In the Atlantic Fleet we are committed to no less, and we must be careful that we do not allow future contingencies to take away from this commitment.

In summary, the readiness of the fleet is high. But there is little question that the tempo of operations in 1994 took a toll on the service life of some platforms and equipment; put a strain on those Sailors and Marines who had to shoulder some of the additional burden; and prevented us from making repairs and improvements to our infrastructure that are needed to maintain the quality of our workplace.

I thank you for the opportunity to address these issues and I will be happy to answer your questions.

Mr. BATEMAN. Thank you very much, Admiral Flanagan. Now, General Funk, first let me say publicly what we discussed earlier. Congratulations on the arrival of your fifth grandchild.

General FUNK. Thank you, sir.

Mr. BATEMAN. I had that very nice experience for the third time 8 days ago. So, we are members of the same club. Welcome, General Funk.

**STATEMENT OF LT. GEN. PAUL E. FUNK, COMMANDING
GENERAL, III ARMY CORPS, FORT HOOD, TX**

General FUNK. Thank you, sir, and it is a great club to be in. I appreciate your recognizing that. Incidentally, my new grandson was born at Fort Carson, CO in one of our Army hospitals. I will talk about quality of life in just a minute, if I may.

I would also like to supplement our statement. First, thanks to this committee and to the House for voting the supplementing because, frankly, we had been counting on it. Our training has been at such a level from the beginning of this fiscal year that in order to raise our readiness higher than the standards we were able to achieve last fall, we had been betting on the coming.

We had been betting that we would get this supplemental, and it is critical to our training in the fourth quarter. The first three quarters are laid out. We need the money probably by the end of this month in order to program it and plan it, and to get everybody in the right position to finish the year. So, thanks to the House for that.

Second, in terms of readiness, we started the year with more money, \$47 million more, at Fort Hood. Let me just describe Fort Hood and III Corps a little. III Corps is the most powerful corps in the world. No army has a corps as powerful as this particular one.

In the Active Force, we have 82,000 soldiers. There are 80,000 soldiers in the Army National Guard. They are like the admiral said, America's finest. They are great young people. They like to train. They signed up to train. That is what we are going to try to do for them.

There are 11,063 main battle tanks, M-1, A-1 in III Corps; 1,734 in the four National Guard Divisions that we have. There are 1,218 fighting vehicles in the Active Force; 2,026 for a total of 3,244 in both components.

We have 127 attack helicopters in the III Corps in the Active component and 116 in the Reserve for 243. There are over 1,100 pieces of artillery, that is artillery tubes, 155, and 207 multiple-launch rocket systems. It is a great corps.

If we do not train it properly though, it ain't worth much, as the troops would say. That is why we need the money. That is why we need the supplemental.

Now, as to some of the things that you all mentioned, the turbulence in the force; it has affected us. In fact, just at the time of operations in Haiti, one of our units was training at the National Training Center. Three of the sergeants happened to be able to speak the Haitian dialect.

They were plucked from the battlefield and flown back. The next day they were in Haiti. Those kinds of things have an impact on

our people. Those soldiers have since returned to us because the rotation came around, but that is an iffy proposition.

As specifically to the divisions that I command, the 1st Infantry Division has already moved up one grade in readiness. Without getting too specific about that, they were one of the divisions that was down. They are back up.

The 4th Infantry Division is unfortunately one of our divisions at Fort Carson which will be standing down the division headquarters. That division is training hard, but because of the turbulence there, we are probably not going to see a great change in readiness. It will end up with one brigade left at Fort Carson. That brigade will be ready.

The 2d Armored Division at Fort Hood, TX is going to take us a little longer because of the programming and planning that I mentioned earlier. It will be ready by next September to meet its—that is an achievement that I think is a very significant one because they have the oldest equipment that we have and because frankly they had to cancel quite a lot of training to help out their brethren in the 1st Cavalry Division, one of our first to deploy forces, also at Fort Hood.

Quality of life is a little different matter and it affects a lot of different things in the various services. I would like to just talk about housing. Since the Secretary of Defense has commented on us, there are 45,000 soldiers, approximately a few less than that right now, at Fort Hood, TX, just as an example.

About 63 percent of them are married. So, we have at any one time around 26,000 Army families at Fort Hood. I have 5,700 sets of quarters on post. So, the rest of the housing is found in the local area. It can be found. The problem we have is we do not pay our young people enough variable housing allowance to make affordable housing within everybody's reach.

The second thing that I would like to mention is for our single soldiers, we have moved hard on a barracks improvement program and we are about 63 percent finished with that; with the projects that are ongoing this year. We would, of course, like to continue that. That is a factor for our single soldiers.

In the Army we say, we enlist single soldiers, but we reenlist married soldiers. That is the way it has come to be. Frankly, that has its advantages. For instance, our incidents at least in the III Corps and I think this is true throughout the Army, our incidents with the soldiers is less than it has ever been for two reasons.

I think one, is the number of married soldiers we have, and two, the number of quality women that we have in the Army. Finally, I would like to talk about impact aid. We have, I am told, about a fifth of the Army's kids at Fort Hood, TX. That has a big impact on our community.

The Killeen Independent School District has 27,000 children. Sixty-three percent of those kids are ours from Fort Hood. That plays a big role in impact aid. I know there is a move to cut it out. I want to mention it because I think it is an important quality of life area for our people. It is a reenlist matter.

The sergeant majors are going to talk to you later and Command Sergeant Major Kidd can represent himself much better and our

soldiers much better than I. I will just tell you also we seem to have more programs to get people out than to get them in.

We need help on doing that. Reenlistment bonuses are one way to do that. Finally, sir, I would like to just end with saying that the III Corps can perform its mission. We are training harder now than we were last year. I feel better about readiness this time than last year.

I commanded the 3d Armored Division in the gulf, the desert fight, Desert Storm. I will tell you that our divisions are not to the standard that we were at that time. We are working to get there. We know an awful lot more. All of my subordinate commanders and I know more about how to evaluate training than we did 10 years ago, as an example.

Our training centers like the National Training Center at Fort Irwin have driven this and help us with that. Consequently, I believe that because we are better at assessing it, we are perhaps more critical. I also believe when we tell you something, we are more accurate.

I have hope this year because I believe that we will end the year stronger than we started it. That is our goal. Sir, that is all I have to say.

STATEMENT BY
LIEUTENANT GENERAL PAUL E. FUNK
COMMANDING GENERAL, III U.S. CORPS
HEARINGS ON READINESS & QUALITY OF LIFE BEFORE THE
HOUSE NATIONAL SECURITY COMMITTEE

The United States' Army's III Corps, headquarters at Fort Hood, Texas, is composed of eight divisions. Four divisions are in the active component and four are a part of the reserve components; 162,000 soldiers make up this Corps.

III Corps is capable of performing its primary mission. However, because training funds were diverted to pay for contingency operations during fiscal year 1994, we experienced an actual downturn in readiness as we approached the end of fiscal year 1994. One major source of this downturn was a significant number of unpredicted unit and individual deployments. III Corps deployed 10504 active component soldiers in fiscal year 1994. Further, we began to experience personnel shortages. Today, 2600 III Corps active component soldiers are deployed supporting our national defense policies.

III Corps entered the fourth quarter of fiscal year 1994, with a majority of our active component units failing to achieve their authorized manning and readiness levels. Some factors which created this condition for our Army are: personnel, 29 percent drawdown since 1991; missions, 300 percent increase since 1991, and base operations underfunded by 40 percent. For instance, within III Corps during fiscal year 1994, one division experienced a 50 percent turnover in Bradley crewman and a 100 percent turnover among battalion executive officers and operations and training officers. Thirty-seven percent of the captain's positions were filled by lieutenants.

Under normal conditions, readiness has a brittle quality. Sustained readiness takes a great deal of time and effort to achieve, but it can be very quickly eroded. We program a 6 month recovery cycle for units deployed in support of non-battlefield task oriented missions. During periods of reorganization, such as we are experiencing now, this brittle quality is magnified. An overnight infusion of money, soldiers, or equipment will not result in an immediate improvement in readiness. It takes time to program training, build new teams, and create confidence in units and leaders through enhanced training tempo.

Successful unit training requires a complex series of sequenced exercises programmed well in advance. It requires land, fuel, repair parts, and time. We have to synchronize soldiers in teams, equipment, time, and quality of life to achieve the desired end state, sustainable and reliable readiness.

We anticipate the readiness ratings of our III Corps units will return to acceptable levels during fiscal year 1995.

I will be happy to answer your questions.

Mr. BATEMAN. Thank you very much, General Funk. Now, General Jones, the subcommittees will be pleased to hear from you.

STATEMENT OF MAJ. GEN. JAMES J. JONES, COMMANDING GENERAL, 2D MARINE DIVISION, MARINE FORCES ATLANTIC, CAMP LEJEUNE, NC

General JONES. Mr. Chairman and members of the subcommittees, I am pleased to appear before you as the commander of the 2d Marine Division based in Camp Lejeune, NC.

As you might expect, the word for the division is "readiness" because there is an expeditionary mission that is ever present. I am going to talk a little bit about the division in a historical context very briefly just to let you know where we came from and where we go.

I also want to talk about the three components of readiness that most concern me. That is personnel, training and the material readiness of the division. Here we have I think a balanced view which purports to show that we have good news and maybe some not so good news, but some good trends and some good ways to fix things.

First, the division has been located at Camp Lejeune since 1941. We recently celebrated our 54th birthday. In its life cycle, it has deployed three times; World War II where it fought on Tarawa; deployed in its full strength in the Cuban missile crisis in 1962; and recently fought alongside the 1st Marine Division in Desert Storm where it cleared the Iraqi minefields and helped to bring about the hasty defeat of the Iraqi Army.

Together with the 2d Marine Aircraft Wing and the 2d Force Service Support Group, we formed the triad that is known as the 2d Marine Expeditionary Force. We are a division that has been reduced in size over the last 4 years by approximately 20 percent.

Most of it muscle; two full battalions, one artillery battalion. At the same time, we are a division that has seen its aggregate use in terms of annual deployment TEMPO go up 10 percent which is to say roughly 153 days per year, marines from the division are deployed.

As we speak, I have six full battalions deployed around the world from Cuba, to Norway, to the Mediterranean, to Japan and to training in the high desert in California where we do our combined arms exercises.

It is a very, very busy division. It is a division that is composed of 16,000 sailors and marines; 13,000 of which are in their first enlistment. I want to underscore that; 13,000 of our 16,000 marines and sailors are in their first enlistment. That is 87 percent.

This is important because when you look at the personnel side of the house, you wonder how we are doing in terms of those people. I would like to just dwell on that for just a moment because this is good news. It underscores what General Funk was saying a few minutes ago.

That marines join the Marine Corps not to sit at Camp Lejeune or at Camp Pendleton. They join the Marine Corps to do exactly what we are asking them to do. The fact that we are asking them to do it a little bit more, so far, has yielded some very good results for us in the division.

For example, in the first quarter of this fiscal year, we have reenlisted 14.5 percent of our first-termers which exceeds all of the reenlistments from last year in the same division. We have tripled the number of applicants who are trying to make the Marine Corps a career by going through the marine enlisted commissioning education program, MESEP.

We have doubled the number of applicants for the warrant officer program. Young lieutenants who are also first-termers by definition are also lining up very competitively to try to stay in the Marine Corps. We can only retain 27 percent from the 2d Division because corps-wide the competition is so intense.

I want to underscore that within our first-termers, our figures are very good. However, my friend and colleague, General Rhodes, who commands the 2d Marine Aircraft Wing just up the road, has an even higher DEPTempo rate than mine. He is reporting not quite the same figures, which is to say that there is a threshold out there. I have not reached it. Perhaps he has, but it is out there.

With regard to the career force which is the force that we have to pay particular attention to because this is where families come in, they are also staying with us at a very encouraging rate; up 3.8 percent over fiscal year 1994.

So, those are some indicators that tell us that marines are essentially being challenged. We are asking them to do what they joined the Marine Corps to do and that is encouraging.

There are some quality of life issues that I would underscore. At Camp Lejeune, the base housing situation is that we have 19,000 families and housing for roughly 4,500 of them, which is to say about 23 percent.

This is 7 percentage points below the DOD standard. By the Department of the Navy's recent audit of our housing, we are about 3,000 units short of base housing. It is a fact that over half of the children who attend our base schools qualify for some sort of exemption in the school lunch program because of the economic condition of the families.

We have roughly 400 marines in the division who qualify for food stamps or who are eligible for food stamps. Quality of life is an important initiative. I am very encouraged by the words coming out of Washington with regard to the emphasis on quality of life. I am optimistic that in the future it is going to dramatically increase.

The Marine Corps has committed more funds to it to bring us into parity with the other services. This is only going to pay great dividends.

Readiness is exactly as you said, Mr. Chairman. It is not a picture. It is a moving picture. It must be embraced in a holistic sense to understand it. You can report things and numbers, but to really grasp it you have to understand that readiness is in the mind and in the body; how we train the body and how we prepare the mind.

If a marine is going to deploy for half a year, out of his 4-year enlistment, every year, then he must be able, if he is married and 28 percent of my marines are married, to deploy with the knowledge that his family and the people that he is concerned about are well-taken care of.

We are spending an extraordinary amount of time bringing the family readiness into the equation of military readiness as well.

With regard to my financial situation, my funds for operating and maintaining the division have decreased over the last 4 years, since fiscal year 1992, by approximately 44 percent in fiscal year 1995 dollars.

If you take into account the fact that I am also augmented by funds from the joint community and the counterdrug program, then that decrease is really closer to 19 or 20 percent. With regard to training, training is something that obviously for a ready division is extremely important.

We spend a lot of time and a lot of our resources on training. The training budget has decreased by roughly in excess of 40 percent. I think the exact figure is 44 percent over the last 4 years.

This concerns me, but there are some economies of scale that we can reach out and touch with innovative training right on our home station. Developing our own ranges instead of deploying our troops to California or other places to train; we are getting there. We are not there yet. We need some enhancements with regard to the training facilities at Camp Lejeune.

Increased use of simulators and things like that also will help us achieve the goals and the readiness training that we are interested in achieving. The last issue and the one that concerns me the most is material. People cycle in and out of the fleet.

They get their respite when they leave the Fleet Marine Force. The equipment does not. The equipment does not differentiate between training and real world contingencies. We are using the same equipment over and over again.

The financial picture for the 2d Marine Division in 4 years has decreased approximately 45 percent in terms of moneys available to maintain equipment. The message that I would say is that people are aware of this. We are working on it. There will be solutions found.

Since I deal in the here and now because my division has to be ready to go not tomorrow, but today, this is a legitimate concern. We are using up the service life at an accelerated rate. This is easy to explain and it is a fact of our everyday life. It is something that will come back to haunt us if it is not properly addressed.

Beyond that, Mr. Chairman, it is a great division to be in. It does a lot of great things. I think that the marines who serve in it are very proud of their contribution to the Nation and the contribution that they are going to continue to make in the years to come. I thank you for your time.

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STATEMENT OF
MAJOR GENERAL JAMES L. JONES
UNITED STATES MARINE CORPS
COMMANDING GENERAL, 2D MARINE DIVISION
BEFORE THE
HOUSE NATIONAL SECURITY COMMITTEE
7 MARCH 1995
CONCERNING
READINESS

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
NATIONAL SECURITY COMMITTEE

It is a pleasure to appear before this committee in my capacity as Commanding General, 2d Marine Division. The Division, based at Camp Lejeune, North Carolina since 1946, is the Ground Combat Element of the II Marine Expeditionary Force, which also includes the 2d Marine Aircraft Wing and the 2d Force Service Support Group.

On February 19 of this year, the Nation paused to remember one of the epic battles of World War II which took place in the Pacific on Iwo Jima. Earlier during the same month, the Division paused to remember its 54th year of service in the midst of many of its assembled veterans of that same war and same campaign. Though the Division was not committed to the fight for Iwo Jima, it proudly carries on the masthead of its battle color those streamers representing heroic service and victory in such places as Tarawa, Saipan, and Okinawa. No fewer than eight members of the 2d Marine Division were awarded the Congressional Medal of Honor for their actions during World War II in the Pacific. During the Cuban missile crisis in 1962, the 2d Marine Division quickly deployed aboard amphibious shipping and postured off the Cuban coast to support our national interests. In 1990, the Division deployed to southwest Asia as part of Operation Desert Shield. During Operation Desert Storm, the 2d Marine Division, alongside the 1st Marine Division, breached the Iraqi minefields and played a major role in the rapid defeat of the Iraqi Army in Kuwait.

Thankfully, our Nation does not today face a world at war, but it does clearly face a world in conflict which requires both vigilance and readiness. As one of your frontline units, the 2d Marine Division must be among the most ready. It is to this subject that I address the balance of my remarks.

THE 2D MARINE DIVISION

As a multi-role Ground Combat Element of the Marine Expeditionary Force, the mission of the Division is to conduct operational maneuver from the sea and a variety of other missions spanning the full spectrum of operations, from peacekeeping to sustained combat operations ashore. The Division is capable of executing its amphibious role by committing task organized, ready forces from a forward deployed, and usually on-scene, position. Currently, Marines and Sailors of the 2d Marine Division support, through regular deployments often in reinforced battalion strength, four Unified Commanders (USACOM, USEUCOM, USSOUTHCOM, and USPACOM). Though not currently supporting USCENTCOM, we have done so regularly since 1991.

The Division is comprised of three infantry regiments (each with three battalions), one artillery regiment (with four battalions), and one battalion each of engineers, light armored reconnaissance, tanks, assault amphibian vehicles, and a headquarters battalion (with five companies including small craft, reconnaissance, military police, and communications). Its strength today is 16,762, of which 1,047 are officers and 15,715 are enlisted Marines and Sailors. Worth noting is the fact that 13,642 of our enlisted personnel (87%) are serving on their first enlistment.

THE DIVISION IN TRANSITION

Marine Corps- wide, the net effect of force drawdown since Desert Storm is a 33% reduction in our tank battalions, a 25% reduction in our artillery, a 25% reduction in our tactical aviation, and an 11% reduction in our infantry. With regard to the 2d Marine Division, prior to Desert Storm our authorized strength was 20,146 Marines and Sailors. Today our authorized strength has been reduced by 4,085 (20%). In terms of structure, two infantry battalions and one artillery battalion were eliminated--"muscle," as some call it. In pre-Desert Storm years, we had 11 infantry battalions. We now have nine. These reductions have a corresponding impact on readiness by reducing the baseline of forces available and trained to deploy. As a result, the deployments have increased by 10.5% from 38% (138 days) prior to Desert Storm to 42% (153 days) in 1994.

The demands placed on the Division have increased since the end of the Cold War, and given the nature of the world since then, it is not difficult to understand why. With emphasis on the littorals and the strategic choke points, and with the majority of instabilities occurring within a few miles of the world's coastlines, we are staying very busy. Currently, six full battalions (four infantry, two artillery) are deployed to such geographically diverse areas as Cuba, Norway, the Mediterranean, Japan, and the high desert of California. During August 1994, 10,057 Marines and Sailors (60%) of the Division were deployed. Today, that figure is 7,000 Marines and Sailors (42%) deployed for operations and training.

The level of activity generated by these recurring deployments and training exercises is described by what we call Deployment Tempo, or DEPTempo. DEPTempo is described as "the percentage of time in a given annual period that a unit, or element of a unit, supports operations or training away from its home base or station for a period greater than ten consecutive days". In the Division, we typically use the infantry battalion as the scale by which DEPTempo is measured. Although the battalions are reinforced by elements from other units, they serve as the cornerstone around which our deploying forces are task organized.

Since FY 92, the purchasing power of the Division's organic operation and maintenance (O&M) funding has declined by 42%. Admittedly, O&M in FY 92 was inflated somewhat due to the Desert Shield/Desert Storm increases and fortunately, this decline has been partially offset by an increase in joint training and counterdrug funds. The net result is a decline in total obligational authority of 19%. The FY 95 budget is divided into six main categories.

- Maintenance/Replenishment	\$7.7M
- DSSC/Fuel	1.8M
- Reserve	1.4M
- Division Exercises	1.0M
- TAD	.6M
- Contract Services	.6M

READINESS AND THE 2D MARINE DIVISION

The foundation of readiness in the Division is analogous to a three-legged stool. For the stool to be functional, each of the legs must be strong and balanced in relation to the other two. The three legs of the stool are PERSONNEL READINESS, TRAINING READINESS, AND MATERIEL READINESS.

PERSONNEL READINESS

The business of a Marine Division is very manpower intensive, especially at the junior end of the rank spectrum. Eighty-seven percent of our enlisted ranks are in their first term of enlistment and are on the low end of both the rank structure and pay scale. Over 28% of the first termers are married, and their average age is 20 years. We expect to retain 14.5% of our first term Marines this fiscal year, with the rest returning to society after having made a significant contribution to the common good of the Nation. We assume the unwritten charter to return a better citizen to our communities. While much is asked of our forward deployed expeditionary forces, they understand and eagerly accept the responsibilities placed on them. Facing the challenges of frequent deployments and the natural concerns with regard to supporting their families, we continue to work hard to ensure that family readiness remains at the forefront of our concerns. Readiness is not just an issue of having enough people and things; it is very much about how our people feel about their lives and profession. Within our limited resources, we have given these issues our very highest priority. For all these reasons, it is the junior Marines and Sailors who most deserve our consideration when funds are made available for readiness and for improving quality of life for the individual and their families.

What We Do

Reductions to our force structure and corresponding increases in calls for our forward presence and crisis response have caused us to examine Personnel Readiness--especially with respect to the impact on families. During August and September 1994, a peak operational period for the Division, 60% of our personnel were deployed. Between 5,500-6,000 2d Division Marines and Sailors are continually deployed. While that may seem disproportionately high, the opportunity to forward deploy and respond to the world's crises is why these Americans chose to join your Marine Corps. Although a glimpse at our retention figures offers evidence to the enthusiasm with which they embark on their missions, they and their families make a sacrifice that is difficult to quantify, but which is no less real.

Retention and Readiness

Our FY 94 reenlistment rate increased by approximately 4.0% over FY 93. First term reenlistment for FY 95 was at 14.5% on 15 February, already exceeding all of FY 94 (12.8%). We have also seen an increase in the number of applications for the Marine Enlisted Commissioning Education Program (MECEP), which tripled over last year. Applicants for the warrant officer program doubled as well. Our junior officers are still trying to augment into the regular Marine Corps, and many are disappointed when forced to leave active service. On the most recent Officer Retention Board, the Division had 30 of its 109 applicants (27.5%) selected for augmentation into the regular establishment.

This is a great time to be a junior officer or a junior enlisted Marine. None joined our ranks seeking inactivity, and they aren't being disappointed. They are out in the forefront, such as off the coasts of Somalia, Norway, and Croatia. Recruiting posters are coming to life for them. At least in their early years, the deployments and extended field duty appear to be positive retention factors.

Although it is a great time to be a junior officer or first term Marine, we must not forget the career force. Whether officer or enlisted, these Marines are not only older, but have families and require more emphasis on quality of life. Yet the career force reenlistment rate in the Division was up 4.5 % from FY 93 to FY 94, and is up 3.8 % when comparing the first quarter of FY 94 to the first quarter of FY 95. If Marines of the 2d Marine Division are "voting with their feet," they are voting to march with us and not away from us.

While our retention indicators are encouraging, we realize that the balance is fragile and that it must be watched carefully. In the 2d Marine Aircraft Wing, a command with higher DEPTempo rates than ours, the career Marine retention rate has dropped a full percentage point from the first quarter of FY 95 as compared to the same period in FY 94. Most of those electing to leave cite multiple deployments as the primary reason. Quality of life emerges as a key component of personnel readiness.

Quality of Life

There is no doubt, as we look around at the new Morale, Welfare, and Recreation (MWR) facilities available to our Marines and Sailors, that some aspects of quality of life are steadily improving. Thanks to a recent plus-up of \$10M to Marine Corps MWR Programs, there is substantial improvement in the per capita direct funding for quality of life initiatives. This equates to an increase from \$100 per Marine to \$123 per Marine, bringing us closer to parity with the other services. However, we cannot overlook the fact that over half of the children attending school aboard Camp Lejeune receive school lunch subsidies, and approximately 400 Marines in the Division are eligible for food stamps. While assistance programs have a place in society, our commitment to the quality of life of our service members and their families is incompatible with the condition that equates to a form of welfare for our most junior ranks.

The Marine Corps Base at Camp Lejeune provides the support scabbard for the Division's operational sword. There are currently 4,453 family housing units aboard the base, providing quarters for only 23% of the 19,391 families who are eligible for housing. A recently completed DON study shows that a minimum of 3,000 additional housing units are required at Camp Lejeune. Much of the housing is in excess of 50 years old and requires extensive maintenance. Funding to support both new construction and maintenance remains problematic. There are currently \$68M in unfunded major repair requirements to family housing and over \$26.5M in unfunded projects necessary to make critical repairs and to replace bachelor enlisted quarters (BEQ) aboard Camp Lejeune. In a recently conducted NCO symposium, one of the major issues raised was the state of the BEQs and the shortage of base maintenance personnel to accomplish critical repairs. We have a \$1.5M unfunded requirement for replacing furnishings and equipment in the Division's BEQs and administrative office spaces. Finally, the base-wide facilities maintenance backlog is \$103M, requiring \$50M per year to prevent the backlog from growing.

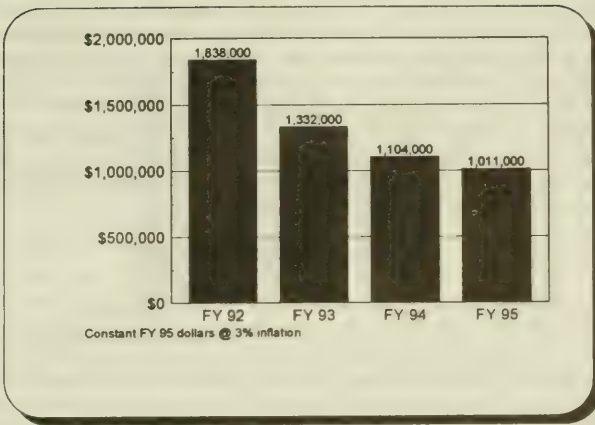
TRAINING READINESS

The expeditionary nature of Marine forces and the potential for their immediate deployment, requires vigilance regarding training readiness. This way of life influences all the Division does, especially the manner in which we evaluate readiness. We routinely inspect and evaluate our units without prior notice in the full spectrum of capabilities, from administration to logistics to operations. In our evaluations we replicate, to the greatest extent possible, the fog and friction inherent to war, assigning the inspected unit a challenging mission and evaluating its ability to operate in a force-on-force, free play exercise. Readiness in the 2d Marine Division is more than a concept--it is our profession.

Training Funds and Readiness

Funding trends for training reflect a decline in the Division's exercise budget. Post-Desert Storm funding has been reduced by more than \$.8M (45%) since FY 92 as depicted by the following chart.

2D MARINE DIVISION EXERCISE FUNDING



While funds available to the Division have decreased dramatically, the emphasis on joint operations has enabled us to obtain training funds from the joint arena and from the counterdrug effort. Such funds are proving instrumental to our ability to provide both the type and quality of training required of us in support of unified commanders.

Flexibility and Innovation

Reductions in O&M funding have forced trainers to become innovative, capitalizing on every opportunity to maximize our training sustainment dollars. A leaner Division has less flexibility and fewer options when attempting to fill voids created by unexpected deployments. Since last July, we have lost three battalion-sized training events due to real world contingencies. Given the uncertain world scene, this situation is likely to repeat itself in the future. Of necessity, efforts are increasingly focused on local training; however, training facilities, ranges, and maneuver areas have not kept pace with weapon and equipment modernization. Lasers, electronic instrumentation, the effect of modern munitions, and combined arms training all drive the need for facility improvements. Range facilities have not appreciably improved in the past 15 years. On the positive side, the acquisition of 41,000 acres adjacent to Camp Lejeune and the planned development of 10 additional live fire ranges will enhance training and reduce the resources we currently expend to send Marines and equipment to other live fire sites.

Ammunition and Combat Simulators

Through the POM years (2001), the Marine Corps has identified a significant shortfall between ammunition requirements and funding. For example, the available supply rate (ASR) of 25mm training practice rounds for the Light Armored Reconnaissance Battalion has been cut 75% for this fiscal year, from 2,200 to 550 rounds per gun. The reduction caused the cancellation of one of two required weapon qualification exercises the battalion had planned. On the margins, we are improving our ability to train through the use of simulators--an alternative which offers potential to improve, expand, and reduce the cost of training. However, without sufficient training ammunition, we lose the ability to complement the potential derived from this type training. While we intend to make use of new capabilities, the current ammunition shortfall is serious. If not corrected, it will adversely affect our training and readiness.

Amphibious and Helicopter Training

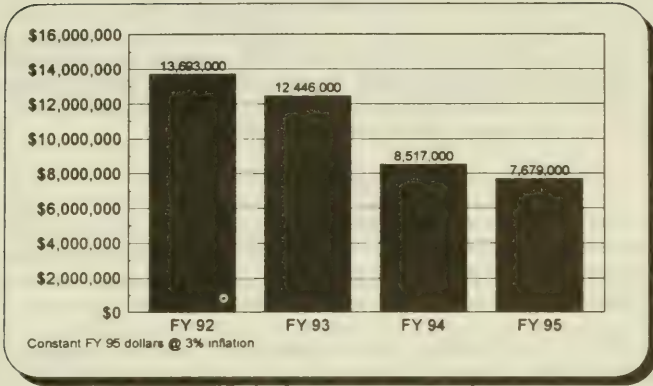
Operations and training are our business, and business is exceedingly good in the Fleet Marine Force. It is imperative that we maintain our unique capabilities to project credible, sustainable forces from the sea. Our amphibious ships and our rotary wing aircraft are key to this capability. High operational demands on the Navy and a dramatic reduction in the number of amphibious ships and their lift capability, have resulted in a predictable reduction in the availability of amphibious ships for training. Similarly, a decline in our aviation assets and a corresponding increase in the operational requirements of our Wings have also resulted in a reduction in our ability to train to the desired standards. More than for any other service, the cohesion of the Marine air/ground team is fundamental to the future success of your Marines. We continue to retain our readiness despite decreasing assets and the accelerating rate of utilization, which is rapidly consuming our inventory. While there is respite for our Marines and Sailors, due to rotation, there is no rest for our equipment which makes no distinction between training and "real world" contingencies. The more we use it, the faster the end of its service life approaches.

MATERIEL READINESS

The third leg of the readiness stool, materiel, is the one that concerns me the most. It may best be described as "an accident that will happen." Prior to Operations Desert Shield and Desert Storm, the Division enjoyed the benefits of cadred equipment and sufficient funding with which to meet the welcomed demands of our assigned roles (by Congress), functions (by the Secretary of Defense), and missions (by the combatant CINCs). While we are still able to meet those demands, the excess equipment is gone, and our operational funding has decreased.

A corresponding decrease also exists with regard to equipment maintenance funding. When our equipment was new, maintenance funding was adequate. Today, our aging equipment requires increased maintenance resources. Yet since FY 92, the purchasing power of the Division's maintenance funds has diminished by 44%. Our fiscal requirements are clearly on the increase while funding is just as clearly on a corresponding decline.

2D MARINE DIVISION EQUIPMENT MAINTENANCE/REPLENISHMENT



Service Life of Equipment

We face a serious situation with regard to much of our major equipment. The defense budgets of the late 70s and early 80s brought an infusion of much needed new equipment and technological advances. Most of these items came into service within the five-year period between 1982 and 1987. This equipment has provided exceptionally good service and has elevated the capability of the Division to new levels. Our demonstrated superiority in the Gulf War is clear proof of this. However, because our equipment, in the main, was procured at the same time, it will also reach expected service life limitations at essentially the same time. Without replacement equipment, our materiel advantage will quickly disappear.

Maintenance Personnel

With the reduction of entire units, force drawdown brought decreases in the numbers of Marines in various occupational specialties throughout the Division. Maintenance personnel are a good example. In earlier years we planned for and achieved a mechanic to equipment ratio of 1:7. New equipment didn't break very often and when it did, there were adequate numbers of mechanics to return it to service very quickly. Today, our mechanic to equipment ratio is 1:13 for the Division as a whole, and in some units it is as high as 1:20. This degradation alone would be cause for concern, but combined with the increasing age of our equipment, it is especially alarming. Older equipment breaks more frequently, and we now have fewer mechanics. Current readiness ratings belie what the future holds for the Division in terms of equipment readiness.

Funding

Although the average age of our major items of equipment exceeds 10 years, readiness statistics remain very good. For the past two years, the Division's equipment readiness has been at a constant 96%. To those studying our readiness data, the picture is positive. However, as we have passed the halfway point of the expected service life of the majority of our critical items of equipment, maintenance requirements are likely to increase resulting in a potential decrease in operational availability. Weaknesses are starting to appear, and solutions must be found. FY 95 and 96 budgets show real increases, the out years are of concern.

SUMMARY

Readiness is a way of life in the 2d Marine Division and has been since our inception. As in the past, the Division remains ready and capable. To guarantee success, readiness must be constantly monitored, managed, and maintained. Readiness is the watchword of an expeditionary, multi-role, forward-deployed force; in fact it is its very essence.

In describing the three legs of readiness, I have addressed the good and bad, hand-in-hand. The Marines and Sailors of the 2d Marine Division are proud of what they are and what they do, just as their heroic predecessors of Tarawa, Saipan, and Okinawa. Although we have fewer personnel, and we are using them more, they are staying with us. We have no complaints. We are a manpower intensive outfit in a manpower intensive business. We deploy frequently to remote regions of the world, but that is what the Nation expects of us. In peacetime, training is our business. Intense, realistic training saves lives...nothing is more important. Training should replicate potential real-world missions. The advancing age of our equipment and our ability to maintain it is our Achilles heel, and my greatest concern. While current equipment readiness is adequate, it will decline at current funding levels.

General Carl E. Mundy, Jr., the Corps's thirtieth Commandant, describes Marine Corps readiness in terms of confidence in its present "health" and expresses concern over its future "wellness." Indeed, the "health" of the 2d Marine Division is exceedingly good, and its Marines and Sailors take great pride in their role in pursuit of the many national objectives of the world's only superpower.

In his book entitled "Iwo Jima, Legacy of Valor," the author Bill D. Ross tells of a letter written by Captain Bonnie Little, killed in action on Tarawa, in which he said, "The Marines have a way of making you afraid; not of dying, but of not doing your job." While there is no fear that today's Marine will not be up to the task, we who are privileged to lead must continue to provide tomorrow's heroes with the requisite training and equipment to guarantee the many successes yet to come.

Mr. BATEMAN. Thank you very much, General Jones. Now, General Dallager.

**STATEMENT OF BRIG. GEN. JOHN R. DALLAGER, COMMANDER,
52D FIGHTER WING, SPANGDAHLEM, GERMANY**

General DALLAGER. Mr. Chairman and Members, it is a pleasure to appear before you today. I am the commander of the 52d Fighter Wing at Spangdahlem Air Base, Germany and have been privileged to be so for the last 14 months.

We are a composite with 72 fighter aircraft; A-10's, F-15's, and F-16's and an air control squadron. In addition, some almost 6,000 military and civilian personnel, plus their families. We have a very challenging mission and one that I am proud to report, we are very capable and very ready to perform.

In fact as we speak, we currently have aircraft and personnel deployed to four different locations in support of contingency operations such as Southern Watch, Provide Comfort, Provide Promise and Deny Flight.

All of our people are very busy. So busy in fact that this past Christmas holiday season was the first time that I had all of the fighter squadrons home at one time in almost 1 year. This pace of activity averaging throughout the year, more than 600 individuals deployed, almost half of our aircraft deployed, is not unlike the pace that was sustained by the wing during Desert Shield, Desert Storm.

In my view, that OPTEMPO, PERSTEMPO comes at a cost; both in terms of a human cost and in terms of our ability to train when we look at the amount of time that we spend at contingency operations. Both of those, the human cost and the training opportunities are I think vital readiness ingredients. Very briefly, in human terms, clearly the increased pace of activity which is up some four-fold for the Air Force in the last 4 years is creating stress for our people and for their families.

We are very aware of that. We are taking proactive steps to resolve that, both from an institutional, that is, a family support center, a family advocacy program, a chapel program perspective, and from what I call an up-close and personal perspective or a family perspective that is right down at the unit, and from a neighbor perspective.

We look very closely at a variety of indicators that we consider important as a barometer of the stress that our folks are under. For example, domestic disputes, spouse and child abuse rates, dependent misconduct, DUI/DWI and a variety of others that allow us to focus our efforts on better serving both the military member and the family members of that member when the military member is deployed.

For example, day care, house and car handyman programs, regular spouse visits, news letters, orientation programs, organized family activities, tailored family support guides and most importantly, looking out for each other.

In terms of the impact of contingency deployments on combat training, certainly while the ongoing contingency deployments offer us an opportunity to hone and to improve our capability to work in a joint, combined and a coalition environment, they can also im-

pinge on our opportunity to hone what we consider to be the most challenging and high threat skills that are necessary to maintain a high level of proficiency and to fight and win a major regional conflict.

Very simply put, when you are doing one you simply cannot practice fully for the other. That is a fact of life that we accept, that we monitor very, very closely and that we work very hard to ensure that over time, does not and will not degrade our war fighting readiness.

It is very important that our people return periodically from contingency operations to what I call refresh their combat skills and to continue their combat development. In that light, I would emphasize three points that I would be pleased to discuss later.

First, from a macro-standpoint, stability in the O&M budget and timely funding of contingency operations. It is extremely important to maintaining our readiness and to maintaining quality of life.

Second, our wing simply could not sustain the pace that it operates at without the superb help it has received from the Guard, the Reserve and Active Duty stateside units. In effect, spelling us from the contingency operations that allows us to return home and to deploy to red flag and other high value training exercises as well as offering the Guard and Reserve opportunities to operate in a real time contingency environment.

I view that and I know the Guard folks that I talk to as well, view it as a net plus for both of us. Let me briefly conclude with a short state of the 52d wing synopsis, if I might, hopefully to give you a little bit better feel of who our people are, what they do and how they perform.

As we speak right now, we have 30 A-10's, F-15's, and F-16's deployed for at least a 2-month period to deny flight and operation provide comfort. Until just last week, we had 22 more F-15's and F-16's deployed for high value air-to-air and air-to-ground training in Decimomannu, Italy.

At each one of those locations, our people live in reasonably comfortable tent cities, dormitories, in some cases hotel rooms. They work 6 to 7 days a week for as many hours a day as it takes to get the job done.

All totaled over the past 3 weeks, we had more than 800 individuals deployed and 52 of our 72 aircraft deployed. At home, we continue to train hard. We are preparing for a nuclear surety inspection this month.

We are participating in the Partnership For Peace Program with Eastern European countries. We are in the process of completing a 2-year, two fighter squadron and one air control squadron bed-down at the wing.

I have had the pleasure of flying with our people over the skies of Northern Iraq and over Bosnia. I have deployed with them to numerous exercises throughout Europe and in the States. I have seen the great work that they can do at home, not only supporting the deployed folks, but deployed people's families and our friends and our allies.

Their readiness is very high. Their morale is high. I am convinced it is because they believe that first of all, they are making a difference in the world. They are doing something that is impor-

tant. They believe very much in their leadership, both military and civilian, and that they are doing the utmost to support them.

I would submit that as long as we continue to live up to the faith that they have in us, I and my predecessors, certainly my successors, will be capable of providing a very, very combat ready wing when and if the wing is called upon.

I thank you again for the opportunity to appear here. I look forward to your questions.

DEPARTMENT OF THE AIR FORCE

Presentation to the Subcommittees on Military Readiness and Military Personnel
House National Security Committee

on

7 March 1995

SUBJECT: Stressing the Force: Impacts on Readiness & Quality of Life

STATEMENT OF: Brigadier General John R. Dallager
Commander, 52nd Fighter Wing, US Air Forces in Europe

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
NATIONAL SECURITY COMMITTEE

Mr. Chairman and distinguished members of the House National Security Committee, I'm Brigadier General John Dallager and I'm honored to have the opportunity to appear before you today as you address the readiness of our armed forces. I have been privileged to command the 52d Fighter Wing, based at Spangdahlem AB, Germany, since January 1994. The wing has 72 fighter aircraft--18 A/OA-10 aircraft, 36 F-16 Block 50 aircraft, and 18 F-15C aircraft--and an Air Control Squadron supporting United States Air Forces Europe, United States European Command, and NATO objectives. Achieving those objectives requires a concerted team effort by more than 5,000 military and civilian members--organized into operations, logistics, support, and medical groups--and their families. We have a challenging mission--to be constantly ready to deploy/employ forces to achieve US and NATO objectives--and I'm proud to report that our people are very ready to perform that mission. In fact they demonstrate it daily--even as we speak--in support of contingency operations as diverse as Operation Provide Comfort, Operation Deny Flight, Southern Watch, and Operation Provide Promise. Our success in these Operations Other Than War and in day-to-day training and exercises is directly attributable to the talent, quality, and dedication of our people and to the time and attention we spend focused on our combat readiness.

Our people are also very busy--so busy, in fact, this Christmas was the first time in almost a year that all of our flying squadrons were home at once. Even then we had more than 150 wing personnel deployed. To put our current activity level, or OPTEMPO, in perspective, we use the fall of 1990, when the wing participated in Desert Shield/Desert Storm, as a benchmark. At that time, we deployed in excess of 600 people. Since then we have participated in 5 other contingency operations--Provide Comfort, Deny Flight, Provide Promise, Southern Watch, and Support Hope--often simultaneously. For example, this past year we averaged in excess of 600 people continuously deployed, peaking as high as 900-plus at times--a pace not unlike Desert Storm. Those deployments were to the

previously described contingencies, to absolutely vital weapons training deployments both in-theater and in the United States (for example, Weapon System Evaluation Programs and live fires), and to large force training exercises such as Red Flag, Maple Flag, and Air Warrior. All totaled in 1994, we averaged more than 30 of our 72 aircraft continuously deployed. To be more specific, for our A-10 people that equated to 190-plus days; approximately 150 days for our F-15/F-16 people; and 140 days for our Air Control Squadron personnel. Our goal, both within US Air Forces Europe and throughout the USAF is not to exceed 120 days TDY for our people.

In my view, that OPTEMPO level comes at a cost--both in human terms and, particularly when we look at contingency operations where our opportunities to train across the spectrum of perishable combat skills are frequently reduced, in combat training terms. Both are, I believe, vital readiness ingredients.

In human terms, clearly the increased tempo of deployments--up some fourfold across the Air Force in as many years--creates stress for our people and their families. At the unit and wing level--indeed at the Major Command, USAF, and DOD level--we are very aware of that and taking proactive steps both from an institutional (e.g. Family Advocacy, Family Support Center) perspective and from an "up-close-and-personal" or what I call "family" (unit, squadron, and neighbor) perspective. For example, we look very closely at a variety of stress indicators such as domestic disputes, spouse and child abuse, dependent misconduct, DUI/DWI and others for trends that can help focus our efforts on providing better help for both our military members and for their families while the military member is deployed. Our units and family members help with daycare and house and car "handymen"; provide regular spouse visits, newsletters, and orientation programs; organize family activities and publish tailored family support guides; and, most importantly, look

out for each other. These efforts and others like them are critical to the well being of both the family at home station and the deployed member.

In terms of the impact of contingency deployments on combat training, I'm sure each of you appreciate that combat skills are highly perishable and can atrophy from disuse over time. We must train as we will fight. And while the ongoing contingency operations allow us to further develop our skills in Operations Other Than War and afford us valuable experience in joint/combined/coalition operations, they can impinge upon our opportunity to hone the most challenging, high-threat skills necessary to fight and win in a Major Regional Conflict. Simply put, when you are doing one, you can't practice fully for the other. That is a fact of life that we accept, monitor closely, and work very hard to ensure does not, over time, degrade our war fighting readiness. It is very important that our people return from contingency operations periodically to "refresh" all of their combat skills and to continue their combat development. In that light, I would emphasize three points. First, from a macro-standpoint, stability in our O&M budget and timely funding of contingency operations is key to maintaining combat readiness. Our senior leadership's emphasis and the support of Congress in this effort will ensure that we can continue to support contingencies as we have in the past, while training to full combat proficiency when we are not deployed to a contingency. (Parenthetically, I would add that O & M dollars fund not only our flying hours and mission related items such as fuel and spare parts, but they also fund quality of life items such as facilities and family support and morale, recreation, and welfare (MWR) activities. Second, our wing could not sustain the pace at which it operates without the superb help it has received from the Air National Guard, Air Force Reserve, and other active duty units in "spelling" us from our contingency deployments. They have answered the call magnificently, allowing us to return home or deploy to Red Flag and the like for realistic, high quality training, while simultaneously building their contingency deployment and employment experience base--a net plus for all

of us in terms of readiness. From our wing's perspective, in 1995 their contribution will reduce the time our people are deployed by anywhere from 30 days for our F-15s/F-16s to up to 100 days for our A-10s. We salute them. Third, within USAFE, we are moving to a "whole wing" deployment concept that will reduce overall unit time away from home station and reduce unit piecemeal tasking--both for contingencies and training deployments where possible.

And now, let me conclude with a short "state of the 52d Fighter Wing" synopsis that is intended to give you a better feel for who our people are, what they do, and how they perform. As we speak, we have 12 of our 18A/AU-10s and 240 people deployed for 2 months to Operation Deny Flight at Aviano, Italy supporting the UN/NATO over Bosnia. We have 6 of our 18 F-15s, 12 of our 36 F-16s and 220 people deployed to Operation Provide Comfort at Incirlik, Turkey supporting coalition actions over northern Iraq; until just last week we had 22 more F-15s and F-16s and 277 people deployed for air-to-air and air-to-ground training at Decimomannu, Italy. At each of those locations they live in accommodations that range anywhere from fairly comfortable tent cities to dormitories to hotel rooms and work 6 to 7 days a week for as long as it takes to get the job done right. All totaled, the past three weeks, we had 52 aircraft and more than 800 of our people deployed to at least 6 different locations. At home, we are training hard, preparing for a Nuclear Surety Inspection this month, participating in Partnership for Peace mil-to-mil exchanges with eastern European countries, and completing a 2-year beddown of 2 fighter squadrons and an Air Control Squadron that resulted from downsizing. I have flown with our people in contingency operations over Bosnia - Herzegovina and northern Iraq, deployed with them to training exercises throughout Europe, and seen them work miracles at home station supporting our deployed personnel, their families, and our friends and allies. They, and others like them throughout our nation's military, are magnificent. They demonstrate their superb readiness daily; they have high morale because they know their

mission is important and that they are making a difference in the world; and they believe their leadership--military and civilian--will continue to support them to the utmost. As long as each of us continue to live up to the faith they have in us, I am confident I, and future commanders like me, will give you and the American people a combat-ready wing that believes in its mission and is ready whenever you need us. Thank you for the opportunity to appear before you today. I will be happy to answer your questions now.

Mr. BATEMAN. Thank you very much, General Dallager. At this time, I would like to recognize and call on the chairman of the Military Personnel Subcommittee for any opening statement he would like to make, following which we will proceed to questions.

STATEMENT OF HON. ROBERT K. DORNAN, A REPRESENTATIVE FROM CALIFORNIA, CHAIRMAN, MILITARY PERSONNEL SUBCOMMITTEE

Mr. DORNAN. Thank you, Chairman Bateman. Every morning when I get my Washington Times, I go to a little section called World War II Diary. It is a beautiful reality check to remind us what happened just 50 years ago in the greatest conflict the world has ever known.

Today is a special day. I had the opportunity, with seven of our colleagues, three of them on this committee, Mr. Duncan Hunter among them, Chairman Hunter, to visit the Ludendorf Bridge, the Ramagen Bridge. It was the 9th U.S. Armored Division, the Panthers, that found themselves in front of that bridge where misplaced demolition charges did not blow it.

The infantry attached to the 9th Armored was ordered to go across that bridge. This, of course, is the ultimate in combat readiness. You give an order and a first lieutenant charges across a bridge, the object of every sniper on the east bank of the river that can get him in his sights.

Not to leave out the rest, obviously Eisenhower was ecstatic. Hitler was so outraged, he fired one of his best professional field marshals, Von Runstad. By nightfall, 600 Americans were on the other side of that bridge. Fourteen engineers died a few days later when it collapsed. It was obviously a turning point.

General Patton's army was experiencing another one of his famous 35-mile dashes by the 4th Armored Division; another shutdown division. The 3d Spearhead Armored Division which served so well under you, General, in the gulf war, along with the 104th Timberwolf guys from the southwest of our country, a lot of guys are there from Arizona, took Cologne, where that big cathedral was the IP point for all of the Army Air Force predecessors to our current guys.

Not to leave out the Marine Corps and the Navy. Today was only day 17 of a 36-day conflict. They had more than half way to go on Iwo Jima, but the naval gunfire ceased today. Their shore-borne soldiers and marines were on their own.

The 3d Marine Division could see the northern tip of that big pork chop flowing north from Iwo Jima. So, this is quite a day to have a hearing on readiness.

Mr. SKELTON. Would the gentleman yield just for a moment?

Mr. DORNAN. Yes.

Mr. SKELTON. To add to your historical perspective, and I appreciate your keen interest in history, Mr. Dornan, the gentleman who was in charge of the division that captured the Ramagen Bridge was from my hometown of Lexington. After he retired he was my next door neighbor, Gen. Bill Hogue.

Those in the Army will note that there is a building named after him at Fort Leavenworth and also at Fort Leonard Wood. I could

not let you get by without paying some tribute to that wonderful gentleman, General Hogue.

Mr. DORNAN. Your neighbor was the brigadier that said to a battalion of young Americans, "cross that bridge." That is the kind of order that depends upon total readiness. Just in closing my opening statement here, let's be honest, gentlemen. The crisis in readiness came to a head in 1994.

It had been building for a number of years. It was not just the product of fourth quarter funding shortfalls or a high TEMPO of operations. If I can quote from your prepared statements, because all of your testimony was optimistic, you put the best face on everything which is to be expected.

The 3d Corps testimony reads at one point, "enter the fourth quarter with the majority of our Active component units failing to achieve their authorized manning and readiness levels."

In the 2d Marine Division, since Desert Storm, deployments have increased by 10.5 percent, since fiscal year 1992, but the division's total obligational authority has declined by 19 and the purchasing power of the Division's maintenance fund is down by 44 percent.

Back again to the 3d Corps, personnel down 29 percent since 1991; missions up 300 percent, base operations underfunded by 40. In contrast, the Department of Defense has embarked upon an extraordinary effort to play down the extent and the seriousness of our readiness problems attributing them to that aforementioned fourth quarter funding shortages.

Most recently DOD witnesses, civilians, who have come before this committee to defend fiscal year 1996 defense authorization requests have argued that as long as Congress approves the 1995 supplemental, all readiness will be restored.

This argument ignores the resources triage that DOD has been practicing for years. This triage, funding only the most essential requirements goes on at all levels of our military services. This current triage approach has our commanders turned into managers of shortages.

It is necessary because there are insufficient resources in the defense budget to meet basic readiness, mission or base support or, what is the No. 1 focus of my subcommittee, quality of life requirements, let alone cover the expanded operational requirements of an extraordinarily active year like 1994.

All of our witnesses, Chairman Bateman, have practiced this triage. They know best the impact upon their units and personnel. I look forward, gentlemen, to your candid, straight from the shoulder, I am there testimony. Thank you.

Mr. BATEMAN. Thank you, Mr. Dornan. Now I hope the committee is totally ready to proceed to some questions. I am going to make one very general observation. If anyone on the panel wants to comment, fine, otherwise, I am going to go immediately to Mr. Sisisky for any questions he may have.

The comment I want to make is for my part, I am not paranoid about momentary problems with your readiness. The turbulence has produced problems. You can emphasize them. You can deemphasize them, but all would recognize the turbulence has created some problems.

You have missed training routines that routinely you would like to have made; planned on making. Unforeseen contingencies is a part of the problem. As managers, it is certainly my feeling that you all have managed your problems, what Mr. Dornan has described as shortfalls, extremely well under the circumstances.

The troubling aspect among others, to me, is that you, as managers of shortfalls, are obviously or have obviously pursued a policy of making sure the forces that you must rely upon first for deployment are the forces that you concentrate on their state of readiness.

As the turbulence hits you and you have diversion of funds that you planned on spending one way being utilized another way, it would seem to me you are inevitably left with some tradeoffs where all units of all services are suffering some detriments beyond what the system contemplated for them.

I think that is at the heart of the immediate problems of readiness. It also suggests that there are some systemic things that we need to be looking at as a committee and as a Congress and to insisting that the top leadership of the Department of Defense focus on how to use the resources that you have been given through the authorization and appropriation bills to see that we get the most done with the broadest state of readiness that is capable and to minimize the turbulence.

We are going to be talking a great deal with your civilian leadership in the Pentagon about management of resources—so that when you are tasked to go do something, that someone is focusing on where to identify the money to fund it with the least trauma so that we are not saying aye, aye, sir, yes, sir, and marching off and having to take it out of your hide at least for a period of time, perhaps with it coming from accounts that would have been best left alone if somebody were looking at the total spectrum of all of the pot of money at DOD.

We need to be looking at how we fund unforeseen contingencies. These are among the things that the committee will be very interesting in looking for.

At this point, unless some of the witnesses feel compelled to make some statement, I will turn to Mr. Sisisky for any questions he may have under the 5-minute rule.

Mr. SISISKY. Thank you, Mr. Chairman. Welcome again, gentlemen. Admiral Flanagan, you left here about 3 years ago. You had dark brown hair and look at you now. I am not going to say anything about you, General Funk, except where you got your experience in Fort Pickett.

I might add to General Jones, you looked for enhancements. I got a place for you that they want to close. You are using it now up at Fort Pickett, VA. Everything is sitting ready and they are ready to close it. It is a shame. I had to get that out.

General Dallager, you may have said it, but I have forgotten. I think you need to reiterate that your people are really forward deployed. Your family is in Germany. Am I correct in that?

General DALLAGER. That is correct, sir.

Mr. SISISKY. You are fully deployed.

The chairman made an interesting remark. On September 13, 1993, I had an amendment on the floor of the House of Representa-

tives which we called the defense response fund which was to set up contingencies for just what happened.

Somebody made the statement, we spent \$260-something billion keeping the military, but if we have to use it, we have to pay extra. Now, I am not saying that is what we do, but it may be a good idea now for a response fund.

I would call your attention to the amendment that was defeated on the floor of the House of Representatives with 199 for and 211 against. So, it was pretty close. It just seems to me that it makes sense to have a pot of money that you do not have to worry about getting these things for what you really need it for.

We have talked a lot about readiness. Readiness encompasses a lot of things; personnel, new equipment. All of sudden I found out in the last week that the Army and the Marine Corps are short of trucks. I remember the only trouble about staying here awhile, you have an institutional memory.

I remember during the 1980's, and some of the older Members will remember, we used to put amendments into this committee to buy trucks and everybody said we were crazy. That the Army and the Marine Corps did not need trucks. Now, all of a sudden everybody needs trucks.

I will not talk about the admiral's ships that need repair because of—to some extent, that famous term “cannot get repaired” because they put a surcharge on doing it. I think the Army has that problem too.

Let's get down to what we are here for. This is not a simple question, but I think we need to talk about readiness. For the record, will you give us your assessment of the current readiness of the forces in your command to execute assigned missions?

What are the long-term trends as you see from your command? We hear a lot about are we dangerously approaching another holocaust force? The president-to-be, is he still here?

Mr. DORNAN. And waiting.

Mr. SISISKY. Yes; Mr. Dornan, made the statement that said people are timid. Well, let's see if you are timid. You do not look like timid people to me. Let's just answer that question. I think that will sum up the committee meeting, Mr. Dornan.

Mr. FLANAGAN. I think if you look at the trends, since this readiness equation has so many elements, and it does. It is difficult to quantify in any fashion. Contingency operations obviously eat away at resources that were clearly programmed in a prior period when you had a different vision to do other things; to do maintenance of real property; to do systemic overhauls of ships and aircraft and aircraft engines; the kinds of things that sustain you over a long period of time, given the use of the force as we have seen it employed historically now in the last year.

It makes planning difficult. If you are looking for a trend analysis in a way, it makes planning difficult for the industrial facilities, for their capacity, to do the kinds of things that are sustaining in nature.

These unexpected expenditures, like the operation that we are supporting now in Cuba, break into that planning scheme. So, that trend is difficult. In the long term, you get concerned because there isn't any great resolve on the horizon that I can see where I sit for

the situation in Cuba. That, right now, is the largest consumer of my operations and maintenance dollars.

Again, if I could categorize this in a trend analysis, it is what keeps the trend of the force up? Those expenditures have happened, and I think that if they continue, we will find ourselves with a maintenance backlog in all segments of our inventory.

General FUNK. As to the timidity, I just say, you would have to ask the Towacana Division how timid I am and the 3d Armored Division, except there is no more Towacana Division. They do not exist. Those divisions that we fought with in that war were tough, resourceful and, in fact, trained much like we train today.

My first answer would be, I have four armored divisions, armored or mechanized divisions in the III Corps; Active components. Of those, one is of the Contingency Response Force and the other three are early reinforcing.

Last fall, they did not meet the readiness standard that we had set for them. Two of those divisions will now meet those standards. The other two, as I said, one, the 4th Division, probably will not, because it is being taken down.

The final one, the 2d Armored Division will meet it later this year. I promise you that the assessment of that will be every bit as hardheaded as the assessment was before we put our kids in harm's way in Desert Storm.

Now, that takes money and it takes organization and it takes time. It takes, most of all, leadership. We have that. Whether we will have that in 10 years or not, I do not know, if you ask for the long-term process. I believe we will.

We still have the quality soldiers which is the primary thing. We have to have a constant-dollars stream to allow us to train those forces. If we are given that, then they will fight and they will win. Our equipment, however, in the Army is getting older.

The 2d Armored Division which I just mentioned, thankfully, is going to be the Army's Force 21 Division. I say thankfully, because it means that it will be equipped with some new and most modern equipment. It will bring it up.

Just to give you an example, their training TEMPO, the first thing they were resourced at last year was 620 miles. You know that is how the Army gets its money. The standard for a top-of-the-line division is 800 miles; 620 is what they started with.

They ended up the year at about 537; 532, I beg your pardon. Part of the reason was that it cost us more money because that equipment was older. It cost us more money to build the readiness of the division. Those are the kinds of things that in the long run are going to probably cause us problems.

You mentioned trucks, sir, it is a very good point. The 2½-ton truck, all of those that we have in the Army now are old enough to vote. I mean, if you could register them, they could vote. They are older than the kids driving them.

The tanks are no longer young. The Bradley fighting vehicles are no longer new. So, when you look out at the future and you say, what is the Army ready to do in terms of enhancing itself with new equipment, the story is pretty grim.

The near-term readiness in terms of dollars for this year, as I said, with the supplemental we should be fine. The following year,

1996, I have only seen preliminary figures, for readiness of 3d Corps look pretty good. That is about all I have to say, sir.

Mr. SISISKY. General.

General JONES. With regard to the future, I think my statement did not reflect timidity; at least people who read it between the time you got it and the time I wrote it did not think it was very timid. My drill instructor took care of that 28 years ago. He said, you will not be timid. I am not timid.

I want to put it kind of a different way, although I echo everything the admiral and the general just said. I characterize it as an accident that will happen in terms of equipment. That, as I mentioned to you is my main concern.

It is reflected not in our statistical readiness, because our statistics are quite good. If you look at the paper, it is 96 percent across the board, but it will not be maintained at current funding levels in relation to current operational levels.

Simply put, we are using the equipment at a rate that far exceeds its service life capabilities. The end of that service life is going to come sooner rather than later at the current TEMPO. This is not a complaint. It is just a fact.

On the personnel side, the troops really like what they are doing. Right now, the equipment we give them to do it with is in good shape. The glide slope of my organic maintenance dollars is approaching critical mass.

For example, just some specifics. I have a light armored vehicle battalion that this next year suffered a 75-percent reduction in this ammunition allotment for 25-millimeter ammunition. This is 2,200 rounds per gun down to 550.

There is a \$377 million shortfall in the Marine Corps training ammunition allotment for this year. There is, in the tank battalion, some much needed improvements on the tracks and maintenance on the tracks, which if I spend that money to do that, and I need to do that, will eat up, based on the amount of money that I am allocated, 45 percent of the tank battalion's total budget.

Back to the light armored vehicles, there is some maintenance that has to be done on the cooling systems and the guns. That will eat up 23 percent of that battalion's maintenance dollars.

In the mid-1980's when the Marine Corps was modernized as we all were, we were able to achieve a mechanic-to-equipment ratio of about one man for every seven items of equipment. Today that total is 1 to 13. In some units it is 1 to 20.

It is very logical to conclude that the more you use it, the more you have to maintain it. Yet, the funding profile for that maintenance and the replenishment is going in the other direction.

Now there has been encouraging words from Washington within my service that this problem is known and will be addressed. I am both literally and figuratively from Missouri. My concern is tomorrow, not next year. The first helicopter I flew in was a CH-46. We are still flying it.

Mr. SISISKY. Thank you, General Jones. General Dallager.

General DALLAGER. The 52d Fighter Wing is ready today. If they were not, I would not have them on the road at the pace that they are on the road, in contingency operations as well as high-value training that they are getting.

We are fortunate in many respects in that we have the latest models of F-16's. They are relatively easy to maintain. We have, with the dash 129 engine, a well-documented Fahd sensitivity. It is sensitive to Fahd that we have an interim fix for.

In fact we are working very hard on a long-term fix. It is not impacting our readiness rate at this time. Our F-15's and our A-10's are older aircraft. They are more difficult to maintain. They are, as a result of being older, are starting to wear out.

Several years ago in the 1993, 1994 timeframe, additional money was put into the budget to increase the spares that would be available for us. In fact we are now starting to see, 2 years later, that level start to go up, which I think will assist us greatly.

I will not go into details because it would need to be in a closed session. All of our units are ready for combat. They are C-1, C-2. I spend a lot of time as my folks do concerned with the type of training they are getting. As a matter of fact, last year we spent anywhere from 150 to 180 days on the road.

This year, we have been able to bring that down thanks to the support from the Guard and Reserve, while still maintaining the high value deployment pace that we would do regardless of contingency operations to keep our readiness where we would like to see it.

Obviously, the pace that we have been operating at is wearing on both the people and the equipment. As I look ahead, we simply do not have a model that we can say for an additional dollar or an additional number of spares, what will be the net result on our readiness. It is difficult to predict with any certainty.

However, as I look at the track record of the wing in the past 4 years, they have been at or near the pace that we are currently sustaining, in addition to operating in a very tumultuous environment with the downsizing and picking up additional responsibilities over there.

Although it has been tough on both the people and the equipment, we have been able to maintain our combat readiness. I can say with some certainty that if there were any reductions in either the O&M amount that we get or, obviously, providing money for the contingency fund, clearly that would have an adverse affect on our readiness.

Right now, we are working very, very hard both from our people and equipment standpoint and able to maintain our level of readiness. Everyone is combat ready.

Mr. BATEMAN. Thank you, General. I will now turn to Chairman Dornan for his questions followed by the gentleman from Virginia, Mr. Pickett.

Mr. DORNAN. I would like to ask you a very sensitive question, but keep in mind that Gen. Douglas MacArthur's father, also a Medal of Honor winner, counseled him once according to the younger MacArthur in his book, "Reminiscences." His exact words were, "Douglas, counsels of war breed timidity and defeatism."

Well, we are not on the battlefield here or heading toward a battlefield. This is a counsel of combat readiness. Again, I emphasize I did not expect timidity. I agree with Mr. Sisisky that you are not a timid looking bunch.

Let's tiptoe right out into a mine field. Keep your bayonets pointed at the ground probing as we go. How many of your statements were submitted to the Office of Management and Budget? How different were they when they came back?

I believe it is in order, given the Preamble to the Constitution that we are authorized here to provide for the common defense; ordered to provide for the common defense. I would like to ask for the record that we get your original statements if they still exist so we can take a look at them.

Could I start, General, since you without any timorous hesitation raised your hand first to answer that. Did you have to submit your statement? What did it look like when it came back?

General FUNK. Yes, sir; there is just one sentence that was taken from it. I have already repeated that because you asked me for my opinion on levels. So, I submitted that.

Mr. DORNAN. Good. Admiral, did your statement come back about the same?

Admiral FLANAGAN. No; my statement went through as it was written.

Mr. DORNAN. As written. That is heartening. General.

General JONES. Sir, mine was not substantially changed. There was one graph that showed the decline of my O&M funding, but the words were not changed to depict the graph; very minor changes.

Mr. DORNAN. Good. General.

General DALLAGER. Sir, mine was not changed with one minor exception. I had mentioned originally that we have a goal of 120 days deployment. In the U.S. Air Forces Europe, we break that further down into 90 days of contingency operations and 30 days of training deployments. So, it was strictly a clarification; 120 days and did not include the 90 days for contingency and 30 days for weapons training deployments, which we live by within Europe.

Mr. DORNAN. One of the best things about visiting with our liaison Marines here downstairs on February 23, the day of the flag raising, the second flag raising, with the bigger flag at Iwo Jima, was they had an excellent film that I think one of our Marine lieutenant colonels on the panel here, Paul McHale, had submitted. In it, you see the gentleman that was to be our first Secretary of Defense, then Secretary of the Navy, handsome square jawed James V. Forrestal, saying as he watched from the combat beach with snipers around, Green Beach I think, he looked up and saw the flag go up and said, that flag raising means there will be a Marine Corps for 500 years.

We have been very lucky the last couple of decades to have a string of excellent secretaries of defense. They meet together regularly. They do a show on PBS. Several of them have asked me to probe all of you at opportunities like this with one word. It is mentioned, General Funk, in your statement, sustainability.

What about sustainability? It is one thing to hit the beach, to hit the jungle, to hit the desert, ready to go. How long can you sustain that combat readiness edge? Can we start with you Admiral?

Admiral FLANAGAN. Sure. Mr. Chairman, you know sustain to do what really is the question. We have enough to operate in the theaters that we rotate to. What you start running out of is time. Sus-

tain operational personnel TEMPO. When we had the crisis in Cuba and Haiti last year.

We fell off the goal of trying to keep our people home half of the time. That element of sustainability and a high TEMPO set of operations is something that is not maintained. If you fully mechanize or fully organize yourselves to get into a major conflict, it depends on how long it goes. How long is it going to last? Right now, we are positioned well to operate, and I can supply for the record in a classified sense, those levels.

But we have enough to go do what we have to do today. It really boils down to two things. What is the level of effort? How much do you want to do? There is a limit beyond which we cannot go. We have not built the kinds of things to do that.

We have been in the downsizing business for awhile. I have not been handed the chore that would require me to do something for which I did not have the capacity or the capability to this point.

Sustainability also talks about investment. How much are we going to invest in the replacement pieces and parts for our military? That is an out year question, but one that is on the horizon. We are concerned with the level of airplanes in this budget that came over.

I understand budgetary constraints, but 12 airplanes is not a lot of airplanes to build in one year for one nation. That is an issue that we look at and we worry about, hoping that on the curve that usually occurs in historic spending profiles of the military, that number will go up. It could be a dangerous trend if it doesn't.

The same is true in the shipbuilding program. These are the things that build your sustainability over time. We are watching them to see that they follow some prescription where those numbers increase.

General FUNK. Yes, sir. First thing, I agree with what the admiral said in terms of the future. That, of course, I am not charged with now. I do not really have an idea of where we are going with that except to say, as I said earlier, that I know that we are not able to invest a lot of money in modernization for the future of the Army.

I think that is worrisome in the sustainment phase. In terms of our own mission, the first thing is that I know the III Corps cannot and I believe this is true of all of the Army. We cannot fight with just the Active Force.

It takes the Guard and Reserve for us to go to war. That is for a sizeable war like Desert Storm, for instance. Just as we did on Desert Storm when a lot of great soldiers came to active duty for it, we would have to do that again.

In my own case in III Corps with the 13th COSCOM, which is the heaviest corps support command around. It will require augmentation by Reserve component units for us. That is something that I think we have to plan on and that we have to work toward.

We are trying to do that now. I believe that we can be successful in doing that. In terms of sustaining ourselves, in terms of training dollars, I think I have already at least made it clear as to what we need for the rest of this year.

For the future, and given that we are going to continue with this up-tic in deployments in order to sustain ourselves, I am not sure

how deep we have to go in terms of—deep is probably not the correct word. I am not sure how much money and time we have to have in order to keep ourselves ready to fight. I do not know what the answer is to that, sir.

Mr. DORNAN. General Jones, could the Marine Corps sustain a 36-day, all-out firefight, all guns blazing around the clock 24 hours a day like Iwo Jima?

General JONES. The 2d Marine Division is today organized, trained and equipped to succeed in all of our assigned tasks that I understand. That covers the whole spectrum of conflict. It has the sustainment to make sure that we can last that period of time. That would be up to and including a division-size deployment.

Mr. DORNAN. Thirty-six days.

General JONES. I do not know exactly what day we would start having difficulties, but we repeatedly deploy Marine expeditionary units that sail out and are expected to last half that long. They have the gear. They have the equipment and the training today.

Mr. DORNAN. Right. General Dallager, I flew at Spangdahlem on the way to Desert Storm. I flew with your guys out of Incirlik, went over to Decci on the way down, watched that great gunnery operation and you guys shooting down F-100's which made me feel bad.

How long could you sustain a Spangdahlem effort with your aging A-10's and F-15's?

General JONES. Sir, I have perhaps a narrower focus than my colleagues here at the wing level. We are charged with being able to go someplace and sustain ourselves for 30 days, the squadrons, and we are capable of doing that from a personnel readiness and equipment, spare parts standpoint.

From a longer term perspective we in real world contingency operations nowadays are augmented; work side-by-side with our Guard and Reserve counterparts and in fact are spelled by them in the contingency operations and receive sustainment that way.

Long term, I would be concerned about our ability to get us there with the mobility assets. We are the only Nation in the world that can basically go anywhere on the globe. I have seen that from a central command perspective operating in Somalia. I see it regularly from the European perspective.

For example, the Rwanda episode. My only caution would be that as we focus on the readiness that we not forget to look at what I would call long-term sustainability. That is a proper balance between today's readiness and the modernization of both our aircraft, our equipment and the parts that will ultimately support them over the long term.

Mr. DORNAN. Mr. Chairman, I will say the precision guided munitions question runs counter to the perception of most Americans.

Mr. BATEMAN. I thank the gentleman for doing that. I would remind both the members and the panel that there is a second panel that we will very definitely want and need to hear from.

With that, let me call on Mr. Pickett for his questions. We will start with the answers and we will interrupt if we have to in order to make the vote and then hurry back immediately.

Mr. PICKETT. Thank you, Mr. Chairman. I only have a couple of questions. First of all, there are a lot of little things that go into

making up this overall picture of readiness. The thing that I have come up against recently has to do with civilian employees.

Just a few years ago when the end-strength limits were being put on uniformed personnel, there was an effort to try to make sure that uniformed personnel were doing those things that only uniformed personnel could do. Civilians were being brought in to take on some duties that did not require a military person to be doing.

Now, the military is being confronted with this requirement on FTE that you can only have so many civilian employees. So, there is a tendency to pull back and begin to have uniformed people doing things that uniformed people do not have to do and perhaps should not be doing.

I would like to hear what impact this is having on your operations and how it will affect your readiness.

Admiral FLANAGAN. It is a little early to tell, Mr. Pickett, to be honest with you. It is a relatively new event. In principle, needless to say, we want our military people assigned to do those things that the taxpayer paid for them to do. That the training that we paid for is aimed at.

It is not the total prescription because certainly to give our people a respite from some of the sea duty they have, it has been a compromise over time to bring them ashore and let them do other things. Particularly in cases where there were not chores on the shore side that were exactly like the ones that they were engaged in, in the sea going business.

So, it is a delicate balance for a lot of purposes. I cannot tell you there is any impact that I could give you based on the short period of time that I have been the CINC down in Norfolk and the start of this policy.

I have to tell you that the balance for a lot of big purposes or very important purposes of maintaining seashore rotation have to be followed. That, we will take a look at. I also think that we ought to be managing our people where their skills are and where the investment has been made in those people to acquire those skills. We will keep a very close eye on that.

Mr. PICKETT. Thank you, General.

General FUNK. Yes, sir. To give you kind of a frame of reference here, sir. Since 1987, our strength has fluctuated at Fort Hood, but it was around 38,000 at Fort Hood. At that time I had about 3,200 or they did then, the commander then at about 3,200 civilian employees supporting the post. Now, we are at 45,000. We have about 2,100 authorized. Our strength has gone up, but our civilian end-strength has gone down.

Mr. PICKETT. Can I interrupt you to ask just one question.

Are you given the flexibility to contract out for the services that you are unable to perform because you cannot, the FTE requirement?

General FUNK. Yes, in some cases. There are some requirements there, the A-76 rules and so on that preclude us from doing that very quickly. There are some prohibitions against that. We hope to, as part of FORCECOM's re-invention center concept, be able to do some things about that.

Fundamentally, we are running the post with the same number with that many more troops and with about 2,100 civilians. We have picked up some of that in what we call red cycle training where we use soldiers to do some of the work.

We have tried to eliminate functions. That is very difficult to do. Is this having an impact on our readiness? At the present time, I think that we are probably OK. If we go below that—see, we used to manage, for awhile we could manage the budget with civilians.

Now, we have to manage the end-strength. When that happens, or the work years rather, when that happens, then you are kind of in a real tight trap. Frankly, there are some military spaces on our military so-called TDA, tables of distribution allowance, to help us run the post. There are military spaces that I could convert to civilian spaces; that I would like to.

If I do, I cannot meet my civilian end-strength. So, we are in kind of a trap there. We are trying to overcome that because I think it is important to get as many of the military, green-suites that is, out of the business of things that civilians could do for us. Probably, over the long run, because there would be some continuity there, do it better.

Mr. BATEMAN. If I might interrupt at that point. The committee will have to recess for the purposes of the vote. We will come back and give General Jones and General Dallager an opportunity to comment on that question, hopefully, trying to keep the answers brief so that we can go on to Mr. Cunningham and then to Mr. Skelton, the first of whom to arrive.

[Recess.]

Mr. BATEMAN. The committee will come to order. In a full—the commander would probably have issued an order that all stragglers will be shot. Unfortunately, I cannot operate the committee that way.

I will give them a moment for those who were in line to ask questions to return. If not, we will probably thank you all for appearing. Your testimony has been very helpful to us. We appreciate your being here.

We had General Jones and General Dallager who had not yet responded to Mr. Pickett's question. So, why don't we resume with that.

General JONES. The 2d Marine Division has three civilians in it. I represent 40 percent of the base population. My colleague, General Livingston, has a very large civilian work force. He would probably tell you that in terms of operating that force, he is having some difficulties.

I see it primarily as a tenant activity on his base; particularly in relation to maintenance of housing areas, office spaces, BEQ's and things like that where an obviously reduced budget and a reduced work force is causing maintenance backlogs and work orders that should be done that affect quality of life, that should be done quickly to take considerable amount of time. Having no more than three civilians in the division, I do not have the same problems he has.

General DALLAGER. Sir, the issue is probably not as pertinent to our wing because we are based overseas. The bulk of our employees, both from an on-base perspective working for the Air Force, if

you will, as well as contracted out are German nationals based upon the status of the force's agreement and host nation arrangements that are made. It has not had an impact on us at Spangdahlem.

Mr. PICKETT. Mr. Chairman, may I ask a clarifying question? My question is, Does the limitation on FTE apply to foreign nationals or does it apply only—it is my impression that the FTE applied to all nonmilitary employees of the Department of Defense? I am not trying to put you on the spot. We can always get the answer to that.

General DALLAGER. If I could provide that for the record. We do manage to the man-hours as well as to the end-strength. We have been able to do that in the period of time that I have been there without an impact on the base operations.

[The following information was received for the record:]

FTE

Statutory and Office of Management and Budget (OMB) rules for managing the civilian drawdown by Full Time Equivalents (FTEs) apply only to direct hire employees. Direct hire employees are civilians employed directly by the US government. FTE constraints do not apply to indirect hires, all of which are foreign nationals, or citizens of other countries, who are employed or paid using the host nation as an intermediary. The Air Force employs foreign national civilians on an indirect hire basis in Germany, Belgium, Greece, Netherlands, Spain and Japan.

Mr. PICKETT. Mr. Chairman, if you would indulge me one more question since there is no other member here that wants to ask one at the moment.

The OPTEMPO has built up and has become a fairly serious problem in some areas of our military. The question I have is, In assessing the commitments that our military establishes, and this would be for training, for required operations and for other kinds of activities, joint activities with NATO or what have you, have we moved promptly enough to try to moderate the commitments to more closely fit the reduced size of the force?

Admiral FLANAGAN. I can deal with that, Mr. Pickett. I think the answer to that question is yes. I think that this increased demand is what has forced us to do it. I think perhaps it is the proper thing to do.

In the case of Atlantic Fleet, we have reorganized it. We are now training to mission for forces that are going to operate in the Western Hemisphere. We looked analytically at what we were doing to the entire force and found that by doing some hard thinking and some very controlled analysis that we could find a better way to do business.

We have found that. We have created a thing called the Western Hemisphere Group that will absorb the duties that have been always in this hemisphere, but shared among all of the forces. We will fix the deployed forces in a fashion where that is what they will do. They will rotate to the other theaters.

The Western Hemisphere Group will operate in close proximity of the Caribbean and South America. We have found in that some solutions to their PERS and OPTEMPO a problem that we created by perhaps not operating the force in the same fashion. It has been an opportunity for us. I think we have seized it.

Mr. PICKETT. General Funk.

General FUNK. Actually, and Congressman Dornan mentioned it earlier, sir. In my statement I say, OPTEMPO is up 300 percent, that is number of missions, since Desert Storm. Yet our strength has gone down by over 30 percent.

At any one time I had as many as 10,000 gone from the corps last year. Then they would be gone for 4 months. I would have to replace them. Now I am down to about 2,400, but I have to replace those every 179 days.

Consequently, that kind of turbulence—particularly for a corps like ours—is up. I would have to say that it has not gone down. If anything, it has gone up. We have not found any way except by putting, as the soldiers say, boots on the ground to do it, so that continues.

General JONES. Sir, I would echo both what the admiral and the general said and just add, the only way I can see to make some economies in this field is by trying to find better uses of our own training areas. To not make the deployments that we used to make for training purposes and try to do it at home to the extent that we can.

That is very hard to do. It is not impossible. We are working on that. The numbers are up in terms of deployment activities; manageable, but nonetheless up.

General DALLAGER. Sir, within the U.S. Air Force in Europe in the past 2 to 3 years, we have seen the OPTEMPO go up about 240 percent and the number of people decline by 50 percent: and the number of aircraft down to about 40 percent of what we had say 2 to 3 years ago.

Despite that, at the 52d Wing and throughout the command—as a matter of fact, last year, for example, we averaged about, across all of our squadrons, about 160 days on the road for both contingency as well as weapons training deployments.

Some squadrons were higher. The A-10's, for example, were up around 190 days. Some were lower. Our enlisted folks, probably 2 to 3 weeks per year less than the supporting the units they are a part of.

This year, for a couple of reasons, as we look at our contingency deployments and our training deployments, we have been able to bring that down from about 160 days to about 135 days a year.

That is primarily due to Guard and Reserve support as well as active duty support. The 10-year program takes people from across the entire Air Force and, in fact, other services where it is appropriate to assist and relieve some of those units that are typically at the high deploying rate.

We have worked very hard within the command and both within the wing to consolidate our training where we can. For example, rather than two or three units going piecemeal to two or three different locations, if we can go together as we just did in the past 3 weeks with our F-15's and F-16's, they can work separately. They can fight against each other and accomplish more training in the same period of time and then spend less time on the road.

Mr. BATEMAN. With that, I would like to recognize the vice chairman of the Readiness Committee, the gentleman from California, Mr. Cunningham.

Mr. CUNNINGHAM. Thank you, Mr. Chairman.

General Jones, you stated that the impression of your drill instructor had a lasting effect on you. I want to guarantee you that I also grew up in Shelbina, MO. I can draw every line of Sgt. Walter E. Taylor's face when I close my eyes.

I would also say that the members of this particular committee, for all of those, and I look primarily in the back, because my command master chief ran my squadron for me and the troops underneath it, I used to coin a phrase, why let lead when ability can do it better? I had a hard time with that when I took over as command, but I still think it is true. But each of the members here I think understand what it means to get an arms around readiness, especially on this committee.

Most of them are veterans. Most of them have dedicated their life to readiness and to DOD. I cannot say that is true on the full committee because I personally feel that there are Members on that committee who detract from national security. I won't get into that, but it is a fact.

You give us kind of a mixed message on what readiness is, and I understand following a line. I have been in the military. I understand what the line is. I am anxious to see what the master sergeants and master chief petty officer of the Navy and so on have to say.

But I look at what you have told me and I heard a PAC fleet admiral talk last week about their near buffet on readiness, which means the condition before you get to out-of-control spin. I looked at the different statements.

I would like just a yes or no from each of you. Do you have a readiness level that you think that we had before Desert Storm and/or Vietnam? Admiral.

Admiral FLANAGAN. Before which period?

Mr. CUNNINGHAM. Just before we went into Desert Storm.

Admiral FLANAGAN. We have a different Navy than before we went into Desert Storm. Before Vietnam——

Mr. CUNNINGHAM. Could we meet another Desert Storm with the same readiness today; yes or no?

Admiral FLANAGAN. I do not know.

Mr. CUNNINGHAM. General.

General FUNK. We are not as ready as we were in III Corps. We are not as ready as we were at the time of Desert Storm.

Mr. CUNNINGHAM. Thank you. General.

General JONES. I agree with that statement.

Mr. CUNNINGHAM. General.

General DALLAGER. Our wing is as ready as it was at that time. I am not sure that the mobility that would be needed to get us there and support us is as capable.

Mr. CUNNINGHAM. That is not really a yes or no.

General DALLAGER. Yes.

Mr. CUNNINGHAM. OK. The reason I ask, I look at the Air Force, and I know like the Navy and the Marine Corps, we are losing advisory squadrons. Prior to advisory squadrons we had a 1-to-1/2-to-1 kill ratio in Vietnam.

When we went into Desert Storm our troops were trained. We had advisory that flourished. After we had our advisory squadrons,

our kill ratio went from 12 to 1. I look at Army units, and General, I have two guys out here that are members of the police force in San Diego.

Both of their sons are in the Army. One just got back from Germany. The other one—I cannot remember where he came from, but they do not feel that their units are ready and the morale is down.

When I talked to the kids at Miramar, and I talked to them at Lamour, and I talked to them at the other places, they don't feel that way. Maybe the message isn't getting down to them; not only the morale, but the lack of training. I look at where we don't have engines for our aircraft in many cases.

I look at Miramar. We stood down air wings because we didn't have fuel to fly. Top Gun didn't fly because it didn't have fuel to fly against its class. I look at those kinds of things and the kids with cardboard tanks going across the field going tank-a-tank-a-tank-a. You let me be Khadafi and fight against that guy because he is not going to swing his gun as fast. He is not going to be trained as well. That is the reason I asked the question. I think we are all too guarded in our questions. I understand why. At the same time, I do feel that I have an arms around what readiness is.

When I have lieutenant commanders in a squadron that I don't have and I am having to replace them with lieutenants for department head jobs, that means they are not as experienced. That means operations. That means training. That means the rest of it.

When I rip a kid, like you said, out of a deployment and then I put him in Haiti, that hurts and that is a part of readiness and all of those things. Let me tell you what we are going to guarantee for you.

The 361 percent in nondefense spending—I am going to do everything I can to rip that out and put it right back into your budgets. The BRAC that you have over you, I am going to do everything I can to make sure that it is funded so we can reap the savings on those kinds of things.

My time has run out. Thank you.

The CHAIRMAN. The gentleman from Missouri, Mr. Skelton.

Mr. SKELTON. Thank you very much, Mr. Chairman. Mr. Chairman this is a personal thrill for me to welcome Admiral Flanagan before our committee and the first lady of the fleet, Mrs. Flanagan; old friends of so many of us here.

General Jones, it is good to see you with your—you may not have captured the Ramagen Bridge like a previous two-star Missouri general, but you have done your duty with the Congress of the United States, in NATO, Macedonia and now in your prestigious position. We thank you for your appearance.

General Dallager, a special thanks to you for meeting with Congressmen Edwards, Chapman, and me and for your candor when we met with you in Germany just a few weeks ago. I thank you for that.

General Funk, you command the unit that I spent some time visiting with after Desert Storm; my first attempt, an unsuccessful attempt I might say, to put a military budget together which I finally succeeded this year at Fort Hood. So, we welcome all of you and thank you for coming.

We are talking about Missouri. We are proud of it, Mr. Chairman. I was out of the room when General Jones spoke glowingly of that wonderful State. I would be remiss if I did not point out that a friend to so many of us, Admiral Flanagan and his lady, live in the Missouri House at Norfolk. It is a beautiful structure built by the citizens of the State of Missouri back in 1906. That is right.

Admiral Flanagan, I wish to touch briefly upon the fact that you told me not so long ago you did not cut any training for the fleet. In Europe, I believe I told you that the European Army Command cut some \$300 million out of training to put in housing; roofs, refrigerators and the like.

I know I am comparing apples and oranges. To your credit, you have kept that training level high. My question to you, sir, is at what price to the troops? If they start voting with their feet, we are all in trouble.

I remember those 1979 days when I was on the U.S.S. *Forestall* and the bitterness that I felt from the troops. At what price did you do that, sir?

Admiral FLANAGAN. It was a matter of price that made the decision not so difficult, Mr. Skelton; the price not to send our troops forward to their rotational theaters. Not ready would be a terrible indiscretion on our part.

We are trusted with the care of America's children. They are a little older, but they have got to be prepared to go do the country's will someplace and they have got to be prepared to do it well.

That is the No. 1 priority. That is a very easy decision to make for this commander. Is there a price to pay for that in a budget over which you do not exercise full control because of contingency operations? The answer is of course.

We are not doing a lot of maintenance right now of real property or planned maintenance of ships, aircraft and overhaul of their engines. We are in the same position that General Funk talked about in anticipation of the supplemental, and soon, so we can best manage these treasures that have been paid for by the American taxpayer and keep them in good shape.

So, the price we are paying, quite frankly, is to try to organize our maintenance activities such that we can accommodate them with a supplemental. Should that fail, then we will pay for it with real maintenance. We will pay for it with real engines and real airplanes. That is the price you pay.

Mr. SKELTON. Thank you. My question to each of you is this. The head of your service picks up the phone next Monday and calls each of you, the general, the chief of staff, the commandant, and the CNO, calls you and says, the good news is you have \$250 million to spend any way you want to. The bad news is you have to make a decision within the next 60 days how to spend it wisely and well. How would you do that? I will start with you, General Dallager.

General DALLAGER. \$250 million is a lot of money. That would be a—

Mr. SKELTON. What would you do. What is your priority, sir?

General DALLAGER. My priorities would first of all be twofold; mission related and quality of life related. We operate in an envi-

ronment that we call split operations. Typically, we have part of a squadron on the road and part of it at home.

In some cases we have support equipment, test equipment that is unique, one of a kind, that makes it difficult to operate continuously in split operations. I would spend some of that money on obtaining more of that equipment which would make it easier for us to operate from a split operation, from two or three sites.

For example, several months ago we had F-16's at two contingency operations and were on call to go to Southwest Asia at the same time. So, that is not unusual. The second thing that I would spend it on is quality of life things that relate to where we work, where we live and where we play.

Where we work, facilities, real property maintenance, renovation, upgrading some of those. Where we live, our military family housing, both on base and the leased housing off base is in relatively good shape. We are in the process of renovation for much of that. Dormitories could use some work. Some of those are 40 years old. We have a couple of relatively modern ones; but some, one of which is in the fiscal year 1996 program that we would like to replace or at least upgrade.

And on some of the recreational facilities that we have that contribute both to the families as well as the members for their quality of life.

General JONES. Offering \$250 million to a commander whose budget is \$13.1 million is a very interesting question. I will try to do my best. I would probably see if I could buy back some of the force structure that we lost in the downsizing, if that were possible.

I think getting back to Mr. Cunningham's question a little bit, maybe what we are talking about here is what depth have we lost in 4 years? Even if we send mixed signals on readiness, I think we are all united in here at the witness table. We are talking about the out years of readiness.

You are talking to operators who are worried about the here and now. The message I think we have collectively is that here and now, we are doing good. It is the out years that we worry about.

In the last 4 years, the Marine Corps has downsized, for example, 11 percent of its infantry battalions, 25 percent of its artillery, one-third of its tank battalions, et cetera. We do not have the base from which to draw to support the increased OPTEMPO. We are supporting it with people who really want to do it. I would probably look into that.

I would second earmark \$6 million of that to fix my current maintenance problem. That is what it would take. I was hoping you would ask me the question, but I did not expect you to offer \$250 million—\$6 million would fix that. It would go a long way toward helping the maintenance problem that I have.

The balance of it, I would probably recommend that it be given to my friend, General Livingston, who is the base commander down there in support of Secretary Perry's initiatives concerning quality of life. He would definitely have use for the balance of that in terms of fixing housing, doing the BEQ renovations that need to be done and all of the maintenance that has to be done on the bases as they steadily erode.

General FUNK. The first thing I would do is bring all of our maintenance to 10-20 standard, sir. That is about a half a year's budget for Fort Hood, \$250 million. I would bring everything to 10-20 standard throughout the corps in the Active Force.

The second thing I would do is buy back the two squadrons of Apaches that I am going to have to give up this year because they are a big killer on the battlefield. We should not do without them. Regrettably, they have to go.

The next thing I would do is spend the \$54 million it would take me just to get all of the repair and maintenance of our facilities back up to standards at Fort Hood. We have kept funding it at about 60 percent for the last several years, including this year. That would take care of the \$250 million.

General FLANAGAN. I would throw the first \$90 million into maintenance of real property. Then buy back aircraft, aircraft engine reworks and ship availabilities. The maintenance of real property is the quality of life issue. So is the quality of life issue—the ships being brought to standard and the aircraft being brought to standard.

Mr. BATEMAN. The gentleman from Maryland, Mr. Bartlett.

Mr. BARTLETT. Thank you very much. The hour is late. You all have been very patient. Thank you very much for coming. I will be brief because we have another panel.

General Funk, you mentioned in your testimony that you feel better about readiness this year than last year.

General FUNK. Yes, sir.

Mr. BARTLETT. Is that because you have more resources or you are just learning to do more with less?

General FUNK. That is a great question, Congressman. The answer is I do have more; \$47 million more at Fort Hood to start the year than I had last year. Now that makes a real difference because I can plan for it.

At the same time, I repeat what I said about the supplemental. We are also committing all of that money to training the first 9 months of the year. If we do not get the supplemental the way it is, then we are going to have to shut down training at Fort Hood and really at the other three core installations, July 1. So it isn't doing more with less. That I can say this year.

Mr. BARTLETT. You are doing about as well as you can with what you have. If you are going to maintain readiness you have got to have more.

General FUNK. Yes, sir.

Mr. BARTLETT. OK. Thank you very much. Three of you when you were asked what you would do with \$250 million mentioned that you would buy back force structure that you have lost in the drawdown.

A number of us on the committee have some very serious reservations about the conclusions of the Bottom-Up Review. We take at face value the Vice President's statement that this was done to justify the President's budget numbers.

If that also coincidentally defined the force structure that was needed to meet the threat, that would be an interesting coincidence. We are not sure that that coincidence exists. I will not ask you for a statement.

I will just say that it has been my impression that our concern is that the Bottom-Up Review does not define an adequate force structure to meet the threat which is two nearly simultaneous gulf war kinds of things, plus a Grenada or a Panama. Even if the force structure were adequate to do that, there is not enough money in the recommendation of the Bottom-Up Review to support the force structure which would not accomplish the goals that the force structure says are necessary to meet the threat.

It has been my impression that if you had that kind of a question on your mind before you began your testimony, that you would not find reason to change your mind as a result of your testimony.

My concern, I think the concern of most on this combined committee, about the adequacy of the Bottom-Up Review, has not been allayed by your testimony here. I thank you all very much for your frankness and your openness. I appreciate your willingness to come here and be as forthright as you have been. Thank you very much, Mr. Chairman.

Mr. BATEMAN. The Chair would like to try a prerogative. I am going to recognize Mr. Edwards for his questions because he has been here through most of our proceedings.

I would love to have Mr. Tejeda have the opportunity to ask questions, but if we are going to hear the second panel, I think we are going to have to terminate the questions with Mr. Edwards. I will invite all of the members of the committee, Mr. Tejeda and all others, to submit any questions you may have of the panel and they will respond in writing for the record.

Mr. BATEMAN. I am very sorry to have to do that, but we will never be able to hear the second panel if we do not. Mr. Edwards.

Mr. EDWARDS. Thank you, Mr. Chairman. Thank you all for being here. I will be brief. General Funk, it is great to have you here. I appreciate the job you are doing down in our part of Texas. I appreciate your bringing up the impact aid issue. It is an issue that I have mentioned several times before this committee. I will continue to mention it.

I hope Members of Congress who believe in a strong defense and believe qualify of life issues are critical to our morale and readiness will need to understand that there is a proposal right now that could cut off impact aid for those children of military families living off post. I think that could have a devastating impact upon many of our military families and their morale.

Thank you for bringing that to our attention. Perhaps this question will have to be answered more at length in a written response, but maybe you could give a brief answer, one or two of you, to this.

I wonder what it was like, these kinds of hearings back in the 1970's? In hindsight we all agree that it was a hollow force and we should not make that mistake again. I have to envision that we had service chiefs coming before this committee sitting at that table answering very respectfully that their folks were ready to fight and if necessary, they were ready to go to war.

Yet in hindsight, we did have a terribly hollow force. We did not provide the kind of training and support that our soldiers and Navy sailors and marines deserved.

My question is, 20 years later, do we now have a system in place that is so objective that when we do start hitting the initial thresh-

olds of a hollow force that the information will come forward? Is the system still so subjective that it is going to take a very courageous division commander to admit that his division is not as ready as he thinks it should be?

I think, by the way, those commanders that made those conclusions, drew those conclusions, deserve a medal by bringing before this Congress the issue of readiness. It has to be tough for a young division commander who wants to keep climbing the ladder in his or her service branch to say my troops are not ready.

Do we have to depend on that kind of gutsy performance or do we have a system in place that is so objective that when you are gone, this Congress can in 2 years, 5 years, 10 years from now, get reports back that are so objective we can draw our own conclusions about whether we are ready or not?

I know how difficult it is when you have service chiefs. They are loyal to the Commander in Chief. It is hard for them to say, no, we are not ready to fight or we are not where we should be. Do we have a system in place so it will not let us go back and make the same mistakes we made 20 years ago?

Admiral FLANAGAN. I think that we are in far better shape than we were 20 years ago for a lot of reasons, Mr. Edwards. We have had the opportunity to learn from our past mistakes. We have an All Volunteer Force now.

The quality of the force that I am in now is so much better than the quality of the force that I was in when I was a young officer. It is just remarkable. We talked about hollow force to each other. The Chief of Naval Operations does not allow me to not discuss with him where our readiness is and where it isn't.

One thing is for sure. If someone blows a whistle tomorrow and we have to go fight someplace, we are going to go do that. I cannot in good conscience say that we are not going to do that. Our policies in the Atlantic Fleet are to give priority to the rotational forces. Give priority to the training of the people that we are going to send forward.

There are no hollow forces rotating out of the Atlantic Fleet to supply the unified commanders worldwide. If they have to go fight somebody, Mr. Edwards, they are going to win. They are going to win decisively.

Those are the choices we have made. I think we have a force that is far superior from a technological perspective. I think the standards upon which we measure ourselves are far more stringent than they were when I was a youngster. I think we have got a much, much better force.

We are here to tell you that it is a force now that requires some investment. That message should be loud and clear. If you want the same kind of sustainability that you have had over the years and enjoyed, it is time to do that.

General FUNK. I think that No. 1, we are much better able to measure than in the 1970's. I was in the Army in the 1970's. We almost lost the Army. I cannot speak for the other services, but the ratio of undiscipline, the allowance of things to go by, to allow people to reenlist and everything, we had it the wrong way.

Now, we have tried to bring the force structure down this time. So we have not stretched ourselves like we did before. The missions

are picking up. Is the measurement tool there? You bet. Three division commanders called it that way because they were not afraid of the Chief of Staff of the Army or the Secretary of the Army or any of the leadership to tell it like it is.

I suspect that it is more of a state of mind and a feeling of integrity throughout the force than anything else. I believe we can call it like it is. Are we still subject to what somebody said earlier, as Mr. Cunningham said, to have people down there that aren't very happy with us? You bet.

I try to talk to them. I try to listen to them. I might miss some. We are a lot better force than we were then. Our expectations are higher. The people of America want us to go fight. The 3d Armored Division lost seven soldiers in 4 days of combat; fought through three divisions. There is no more, as I said earlier, Towacana Division. We fought them. They are dead, but the fact is we only lost seven kids.

We are going to go to the next war and it is going to be hard to meet that standard. It is going to be very, very tough. Are we able to do that with anybody we fight? No, sir. But we are pretty good. The rest of the world has gone to school on us now. That worries me a little bit too. We are a lot smaller.

Sometime, maybe, God is going to be on the side of the biggest battalions. I mean, we have to face that too; 10 divisions. That is not many in the days of old. We have got to keep making them better.

We have got to plan to do that. As the admiral said, we are saying that it is going to cost some more in the future to make that happen.

General JONES. Sir, I agree with everything that has just been said. I would just simply add that I think that those of us who are privileged to be in the senior leadership of our respective services have the benefit of experience to recognize the symptoms when they appear. I cannot think of anybody who would not agree with the fact that we would tell you in spades if it appeared in spades.

General DALLAGER. Sir, I lived as a young lieutenant, a very young captain through the hollow force of the 1970's. I would echo the gentleman prior to me that we are much more capable, much more ready than we were during that time frame. The quality of the personnel; the quality of the equipment; the quality of the training and the standards that we ask people to come up to are much better defined and are of a much higher quality.

We have, I think, a reasonably good way of measuring that, both from a status of readiness in training system and from other indicators that are very quantifiable; our mission capable rates, inspections that are conducted; cannibalization rates, those types of things that we can measure quite actively and accurately.

We also use anecdotal information much like you were doing talking to commanders from the field now to get a real feel of the pulse and how the folks and the equipment are doing out there. We are making progress on predictive modeling to determine, for example, the wing level, based upon the spares that we are getting, what can we expect to see for mission capable rates and sortie generation rates?

I think that we have a reasonable handle on that. We can, as always, do better in that regard. I would echo the sentiments that there is integrity within the system—those of us who came up in the 1970's I think have vowed to tell it like it is and to be totally candid, even if the news is not good news. We are very forthright in expressing our opinions, both up and down the chain of command.

Mr. EDWARDS. Thank you. Thank you, Mr. Chairman.

Mr. BATEMAN. I thank the panel, again, for being with us this afternoon and sharing with us their insights. Vice Chairman Dornan has a question he would like to pose for the record. I will yield to him at this point, if he could do that briefly so we can get on with our second panel.

Mr. DORNAN. Thank you, Mr. Chairman. This would not apply to the other three commanders, only to you Admiral Flanagan because the Marines and the Army have no women in combat in armor, infantry, or special operations.

Air Force fighter pilots are all officers. Air Force enlisted men, except on gun ships, are not going into combat except as pathfinders and there are no women there. If you would submit for the record to me, your own wife excluded, the comments from some of the command officers' wives and the enlisted wives about these prolonged sea duty tours with women on ships, the wives opinions, the Navy wives' opinions, I would certainly appreciate hearing from you on that, Admiral.

Admiral FLANAGAN. Would you accept also the husband's opinions?

Mr. DORNAN. Well, the wives have a totally different perspective, particularly the enlisted wives, and of course I expect the husbands, unfortunately in this time of extreme political correctness to tow the White House line.

I want to hear from the wives. Thank you.

[The following information was received for the record:]

Admiral FLANAGAN. "Early warning signs on retention" relate directly to some of the fundamental factors that departing, well-trained, naval personnel provide as rationale for leaving military service. These indicators include:

- a. A growing pay gap between median military compensation and that of related high technology jobs in the civilian marketplace.
- b. Declining unemployment in the economy, which can enhance an individual's confidence in being able to support a family without the turmoil often associated with regular military deployments.
- c. Published annual inflation rates which exceed the cost of living adjustments made to military pay schedules.

Specialized technicians in the electronics field, like those trained in the AEGIS program, are examples of where we have not retained "high training cost" personnel at the first and second enlistment points in the numbers we desire. As I stated in a prior question for the record, I believe that inadequate compensation of our Sailors and Marines, along with the heavy toll that frequent separations takes on the families, are the foremost factors which departing servicemen and women cite as their reasons for leaving the military profession. No single factor is more critical to enhancing individual or family quality of life than to provide a working wage commensurate with the long hours, hazards and sacrifices faced by our uniformed personnel. And this position particularly valid of a Sailor who has an extremely marketable skill, Navy training credentials, and years of valuable experience.

Mr. BATEMAN. Admiral Flanagan, certainly I know you will respond to the question as asked. You can add any footnotes you pre-

fer. Thank you very much. We do appreciate your being with us this afternoon.

Could I ask that we have the second panel seated and if staff would put their nametags out.

The committee will come to order. I would like to recognize our second panel and tell them how delighted we are to have them with us today. I have heard it in this committee as long as I have been on the committee that we are now going to have presentations by the very backbone of our military services.

We are all very proud of our services. We are especially proud of the people who rise to the positions that you occupy. So, let me present to the committee the Sergeant Major of the Army, Richard A. Kidd; the Master Chief Petty Officer of the Navy, John Hagan whose nametag has gotten reversed; the Sergeant Major of the Marine Corps, Harold Overstreet; and the Chief Master Sergeant of the Air Force, David Campanale. I hope I pronounced that correctly.

Thank you very much. We appreciate your being with us. We will let Sergeant Kidd begin our presentation.

STATEMENT OF SGT. MAJ. RICHARD A. KIDD, SERGEANT MAJOR OF THE ARMY

Sergeant Major KIDD. Good evening, Mr. Chairman and distinguished members of this committee. In addition to a written statement I submitted and which I would like to have entered for the record, I have a very brief oral statement.

Mr. BATEMAN. Let me interrupt to say that all of the written statements that you submitted will be made a part of the record. We certainly entertain whatever oral comments you wish to make today.

Sergeant Major KIDD. Thank you, sir. Everyone is familiar with the many and varied missions our soldiers are asked to perform; missions like peacekeeping, nation building, peacemaking, humanitarian, disaster relief and our primary mission of war fighting.

Everyone also knows the missions have increased 300 percent, as a matter of fact as our force has grown smaller by one-third. What does all of this mean to the soldier and his or her family? What impact are they having? That is the crux of why we are here today.

I would like to share with you a soldier's story which I believe answers the question very clearly and provides a look into one of our soldier's life. His story is easily applicable to many.

This particular soldier was a young military policeman I met in Cuba. During our talk I asked him how long he had been in the Army and how much of that time had been spent overseas? He told me he had been in a little over 4 years and had spent 3 of those years overseas.

I thought to myself, that is not too bad. I, too, had spent my first few years overseas; 3 years in Germany followed by a combat tour in Vietnam. So, I told him that. He quickly replied, yes, Sergeant Major, but I have been in six different countries.

By the way, all of his were deployments and therefore unaccompanied. When I learned he was married, I asked him if the deployments had affected his marriage or family. He said as long as my

family has a decent place to live and I know they are well cared for, we will make it fine.

I believe this soldier's story captures the essence of why we are here today. How are soldiers and families being affected by the OPTEMPO and what can be done to ensure they and their families are well cared for? Exactly what does that mean?

I can tell you that if it were not for well-trained, dedicated, quality soldiers like the MP I just cited, we simply could not undertake and successfully do the things we do today. Our Army's track record proves that we have the finest quality young men and women serving in today's Army.

They are soldiers who are proud of who they are, what they are, what they do, and how very well they do it. I am extremely proud of our soldiers and their families. I think you should be too. They do and will continue to do everything that is asked of them.

All they are asking is a quality of life that will give them the best opportunity to successfully and safely accomplish their missions. The soldier, the ultimate weapon, is like any other weapon. If properly maintained, it will never fail you.

We have a quality Army and that is why we are successful. We must maintain it. Quality costs, but the security of our Nation and the welfare of those sworn to defend it are worth it. Thank you for this opportunity to represent our soldiers and their families. I am ready to take your questions.

**STATEMENT BY
SERGEANT MAJOR OF THE ARMY RICHARD A. KIDD
SERGEANT MAJOR OF THE ARMY
HEARINGS ON IMPACTS ON READINESS AND
QUALITY OF LIFE BEFORE THE
HOUSE NATIONAL SECURITY COMMITTEE**

Good afternoon, Mr. Chairman and distinguished members of this committee.

I welcome this opportunity to appear before you on behalf of Soldiers, the "ultimate weapon," and their families. A tremendous amount of media attention has been focused on the question of our military's ability to fight and win our Nation's wars and about the quality of life of those who are sworn to defend America's freedoms and our way of life.

I can report with a degree of authority what Soldiers and their Families tell me their feelings and concerns are about the Army in which they serve. To that end, I can tell you that despite increased deployments and the implications of the drawdown on them and their families and the anxieties and hardships that entails, your Soldiers are getting the job done.

Since the focus of these hearings is on readiness and quality of life, it's important to state from the onset that I believe our Army is sufficiently trained and ready to respond decisively to whatever contingency they may be called upon to engage. I also believe that we are continuing to make progress toward addressing quality of life issues and enhancing Soldiers and their Families' standard of living.

Some people have asked, "Is enough being done to ensure Soldiers are

equipped, trained, and ready to fight the next war? Is enough being done for families left behind when their Soldier spouses are deployed?" These questions are likely to draw varied responses depending on who is posed the questions. I can tell this committee, as I've told other committees I've testified before, that Soldiers are doing everything that's asked of them and more. They are enduring the hardships associated with frequent family separations because they have faith and confidence in their civilian and military leadership. Faith and confidence that if they perform well and do what's asked of them to the best of their abilities, their leaders will look out for their and their families' well being. That's a trust none of us should take lightly.

During my tenure, I have dedicated myself to conveying **their** thoughts and **their** concerns on issues that affect them to you the members of Congress; the military and civilian leadership; as well as to the various boards and councils who make decisions and policies that affect their lives. It's a leadership responsibility I take very seriously.

As I prepared for these hearings knowing you would be asking about our current operational tempo and its affects on readiness and Soldiers, I must confess to having found myself in somewhat of a dilemma. My dilemma was in drawing a clear distinction between what is known---**that we're meeting our recruiting and retention goals, and we're maintaining the quality soldiers we want.** It appears, based on the anecdotal evidence, that our recruiters are having to work much harder to get young men and women to enlist and that we are experiencing some difficulties in retaining soldiers in some military occupational specialties such as military police, air defenders, special forces, infantrymen, transportation, and engineers,

that have been stretched and stressed recently in deployments on Operations Other Than War (OOTW).

To help illustrate this I'd like to offer the story of a young military policeman I talked with in Cuba a few months ago. During the course of our chat, I asked him how long he'd been in and how much of that time had been spent overseas. He said he'd been in four years and had spent three of those overseas. I thought to myself, that's not too bad. I too had spent my first few years overseas, including a combat tour in Vietnam. So, I told him that and he quickly retorted, "Yes, sergeant major," he said, "but I've been in six different countries!"

Another military policeman I spoke to also had made many of those deployments from Fort McClellan, Alabama and, because the deployments were not permanent changes of station, he was scheduled to PCS to Korea for a one-year unaccompanied tour when he returned from Guantanamo. This example could become the norm rather than the exception for many of our soldiers, particularly in selected MOSes.

Fortunately, however, we're learning from our experiences and recently began taking a closer look at the affects operational tempo is having on our soldiers. To that end, we are looking at an Army version of personnel tempo that would have two elements. One deals with unit deployments and the other is job skill tempo.

We generally have a relatively good set of deployability rules that can track and record the individual soldier's movements. That is to say that if a soldier happened to belong to the MP Company in the 10th Mountain Division and rotated with them to Somalia, and then to Haiti and then someplace else, and then happened to be reassigned, we would take

cognizance of the fact that that young American had been doing some out-of-station deployments. Using this new tracking system, our intent is to preclude him from overseas orders for a non-dependent tour. Likewise, we would not send him/her to a unit at Fort Hood, Texas if we know that unit was going to be deploying.

As I see it, most of the problems we have seen bubbling up with readiness and OPTEMPO are largely the result of being structured to accommodate two Major Regional Conflicts (MRCs).

What's resulted are problems in the stretching and stressing of soldiers in certain military occupational specialties, like military police, air defenders, special forces, infantrymen, transportation, engineers, and others performing Operations Other Than War. Even with the use of our Reserve Component forces, which we are employing with increasing frequency, we are still stressing these MOSes.

The fact that we're able to do these missions, and do them well, is a credit to the quality leadership, soldiers and their training. However, Soldiers' willingness to do whatever is necessary and adjust to perform missions "outside" their military occupational specialty also has a negative impact on maintaining their proficiency which can ultimately affect their retention in the Army.

Please don't misunderstand what I say, our soldiers are a proud lot. They are proud of who they are, what they are, what they do, and how very well they do it. And our successes in past operations are the direct result of that pride and having a quality Army capable of undertaking any mission and complete it successfully. It's what our Nation expects and what we do.

We've worked hard for more than 20 years to develop and nurture the

quality Army we have today—it didn't happen overnight. Unfortunately, that quality can be decimated in a much shorter time if we're not careful. Having seen the alternative during my 33 years of service, I've always seen this as a concern. Congressman Dicks (D-Washington) asked me last week, "How close are we to having serious problems in recruiting and retention?" The short answer is, I don't know. While, as I stated earlier, we are presently meeting our recruiting and retention goals, we are beginning to see indicators of potential problems in some MOSes, particularly in units that have histories of multiple deployments. For example, at Fort Bliss, Texas, the retention of mid-grade noncommissioned officers is still a problem across the PATRIOT (air defense) force. They report that a significant drop in reenlistment rates (when compared to the 85.7% Army PATRIOT reenlistment average for FY 94) occurs right after a deployment. Right now, after returning two battalions from deployments to Korea and Southwest Asia, their retention of mid-grade noncommissioned officers is approximately 56% for FY 95.

Before I offer other examples of some of those indicators, it's important that I qualify what I'm about to tell you and to say it is based on my personal observations and discussions with command sergeants major and soldiers and what they tell me they see happening at their level. The information is not based on formal studies or detailed research.

Let's take a look at the 209th Military Police Company, from Fort McClellan, Alabama, as an example of the turbulence some Army units have experienced. The 209th was a player in the overthrow of General Manuel Noriega out of Panama during Operation Just Cause. Shortly thereafter they deployed to the Persian Gulf during Operations Desert Shield and Desert Storm. Shortly after their return from the desert, the company moved "lock,

stock, and barrel," from Fort Meade, Maryland to Fort McClellan. Only 15 days after "settling in" at their new home, they were off to Florida as part of Joint Task Force Andrew to provide security and help hurricane victims. Since then, the 209th has twice deployed to Guantanamo Bay Cuba and made a return visit to Panama.

My travels take me around the world visiting soldiers and it's not uncommon to run into the same group of soldiers in different places. However, during a span of only a couple of year, I have come across one particular battalion of the 10th Mountain Division in Florida, Somalia, Honduras, the Sinai, and Haiti.

The impact of deploying several times in rapid succession has also been felt by soldiers of the 24th Infantry Division, of Fort Stewart, Georgia. The 24th deployed a Task Force to Kuwait for Intrinsic Action, a training exercise, in June 1994. Forty-five days after redeploying back to Georgia, the unit was again required to deploy to Southwest Asia as part of Operation Southern Watch then to Kuwait for Operation Vigilant Warrior, when Iraq again threatened the tiny country.

Additionally, many soldiers of the 24th have deployed to the National Training Center, Fort Irwin, California, between deployments to participate in the division's major training event in the Mojave Desert.

The 24th Support Group (Corps), in the past 12 months alone, has been deployed to Haiti, Cuba, Kuwait, Saudi Arabia, Homestead, Florida; and Macon, Georgia. Add to these the NTC rotations, preparation for NTC, Roving Sands, Bright Star, and other short exercises all of which add to the stresses soldiering and the pressures of keeping a family together.

It's important, at this juncture, to point out that all the deployments

were successful, but they came at a cost to soldiers and their families. The stresses on soldiers and families manifested themselves in varying degrees in each of the examples cited, but generally the affects were the same. Psychological and financial problems were common. Even those soldiers who stayed behind found themselves stretched performing additional duties to make up for those deployed. Psychological problems included an increase in reported spouse abuse, suicide prevention referrals, and hardship/sole parent discharges. Some long-term child care providers were not able to complete their obligations.

At Fort Eustis, Virginia, for example, family and child abuse cases have increased. Counseling services related to these problems, they report, indicate that a significant portion of the 11 percent installation increase is attributed to deployments and separations due to deployments. The number of family abuse cases for FY 93 for the 7th Transportation Group was 108. In FY 94, it was 154. A significant increase considering the Group had four less units and less soldiers during most of the deployments of FY 94.

Additional anxiety manifested itself because deployments covered the major holidays of the year and the uncertainties about when soldiers would be returning home. Many have spent consecutive major holidays away from loved ones.

Financial problems were prevalent in many junior enlisted soldier families. Families also incurred additional expenses for child care and relocating—young wives returning home to their parents.

Even supervisors found themselves spending more time training and counselling after normal duty hours. Fewer soldiers were available for post details and missions. Supervisors, commanders, and Soldier support

personnel (chaplains, spouse support groups and civilian social workers) spent many extra hours supporting families.

Army installations have family support programs like Army Community Services and Army Family Team Building Programs which are specifically designed to help families deal with a wide variety of problems. Despite that fact, frequent deployments, family separations, financial woes and stress, all continue to cause some family members to weigh their families' well being against the benefits of continued service. Unfortunately, some of young Soldiers and mid-grade noncommissioned officers may be voting with their feet and leaving the Army.

In short, yes, our Soldiers are doing everything that's asked of them, and then some. And, yes, we are meeting our mandates on recruiting and reenlistments. But, as I have said...all is not well. And there's evidence that things could get a bit more complicated if the FY 95 Supplemental Appropriation does not pass the Senate by the end of March.

As you know, the Army does not budget for contingency operations and must divert O & M and Military Personnel dollars to pay for them. The Army spent \$739.1 million for OOTW in FY 94 but to date has been reimbursed for only \$577.6 million.

If the supplemental is not passed, the Chief of Staff has already indicated that commanders would have to curtail training, reduce spare parts levels, and minimize fixed costs. However, the major impact would be felt by our warfighting units who would have to stop all training by May 31st. The impact of this funding potential shortfall only compounds the impact on training and readiness and could have serious implications on Soldiers' quality of life.

Specifically, the Army would be required to divert funding from such things as maintenance and repair of barracks, replacement of worn or broken dining facility equipment, barracks furniture replacement, and the maintenance of physical fitness centers and gymnasiums. The potential funding shortfall could result in delayed promotions, a freeze in permanent changes of station, and more.

As I've attempted to illustrate, it's clear that quality is key to readiness and mission accomplishment. As a matter of fact, quality is key to success.

- * Quality young men and women
- * Quality leadership
- * Quality training
- * Quality equipment
- * Quality of life
- * Quality transition
- * Quality retirement benefits

The Presidentially supported \$2.7 billion Q.O.L. initiatives announced in November by Secretary of Defense William J. Perry to fund increases in allowances, better single and family living quarters and to upgrade community environments, carry a strong message to soldiers and their families that their leadership cares. Additionally, while we support the Administration's efforts to cut health care costs for Soldiers and their families through programs like Tri-Care, Soldiers and retirees still have concerns about access to medical facilities and having to pay out-of-pocket expenses for care.

Rather than tell this committee what I think the "short list" of things are that need to be fixed, I will tell you what your Soldiers' families are saying.

But, first, let me preface it by saying that the Army recognizes the importance of quality of life and conducts annual conferences which are attended by the various components of our Army family (Active, Guard, Reserve, DA civilians, retirees, and family members) to identify and address issues that impact on them. One such gathering of the Army Family Planning Conference offered the following as their top priorities: (1) pay, (2) medical and dental, (3) child care, (4) housing, and (5) retiree benefits.

The Army is also sensitive to the concerns of single soldiers living in the barracks. To address their issues, the Army also annually conducts the Better Opportunities for Single Soldiers (BOSS) Conference. Their conferees prioritized their concerns as: (1) pay, (2) billeting, (3) education, (4) promotions, and (5) equal treatment.

I think the Administration's Q.O.L. initiatives are largely the result of the reports garnered at these conferences and demonstrates to Soldiers and their families that the civilian and military leadership is listening.

I must point out that all understand that their concerns for "creature comforts" cannot be made at the expense of training. Because, ultimately, the best quality of life is a well trained and equipped soldier who returns home safe after a deployment or from a battle.

The Army's record stands on its own merit. There is no better trained, better equipped, and better manned force. Maintaining it that way costs money. But the dividends are worth the investment.

Thank you for your past support and solicit your continued support. I appreciate the opportunity to speak to you on behalf of our outstanding soldiers and their families and am prepared to take your questions.

Mr. BATEMAN. Thank you very much, Sergeant Major Kidd. We are delighted to have you and to have your testimony.

At this point I recognize Master CPO John Hagan.

**STATEMENT OF MASTER CPO JOHN HAGAN, MASTER CHIEF
PETTY OFFICER OF THE NAVY**

Chief HAGAN. Thank you, Mr. Chairman and distinguished members of the committee. Thank you for the privilege of representing sailors and their families here today. I have submitted a written statement and have brief oral remarks.

Today, approximately 50 percent of our Navy is underway, either forward deployed or at sea training for deployment. That number is not an anomaly. Indeed, every single day in 1994 we averaged approximately 50 percent of our fleet at sea.

This broke down further to approximately 100 ships on scheduled major deployments, normally 6 months in length, with another 100 underway for training or on unscheduled contingency operations.

These numbers do not take into consideration ships which are undergoing overhaul, out of their home port, nor do they reflect all aviation squadron or construction battalion OPTEMPO, each of which has its own unique parameters.

We do not lack for continued tasking. Recently, Operation United Shield was completed off the coast of Somalia and Naval Forces continue to support our national interest around the world. I see no indication that the pace will let up soon.

When I review what our sailors have accomplished, I feel the same pride that Sergeant Major Kidd referred to. I am in fact filled with a tremendous sense of pride for their many outstanding achievements. Examples abound.

In my written testimony, I provided you only a few, but please be assured that they are neither isolated nor atypical. Although increased OPTEMPO puts a strain on sailors and families, I did not come here to complain.

Bearing this strain is our duty and a part of what we do. In fact, sailors exhibit great pride in having done the difficult, done it well and stand ready to do it again whenever called upon.

I will however, voice serious concern over the potential cost of continuing the present increased OPTEMPO indefinitely. Just a few years ago we spoke of 3 months in port for every month deployed; a turn around ratio of 3 to 1 as being optimum and achievable.

We are now barely holding the line for most surface ships and squadrons and naval construction battalions at a 2-to-1 turn around ratio. We do however have fleet reorganization and maintenance initiatives that Admiral Flanagan referred to currently being worked which hold the potential to increase the turn around ratio to 2.7-to-1; a number considered acceptable for sailors and their ships and equipment.

We are doing a better job at other PERSTEMPO parameters. We have succeeded in deployments of 6 months, maintaining planned seashore rotation dates so that sailors can go to the personal stability of shore duty at the predicted times.

Clearly, our greatest challenge is in maintaining stability in the inter-deployment cycle or that time between deployments. Stability

in this time frame allows us to accomplish quality training and maintenance and permits the crew ample opportunity for annual leave.

Sailors appreciate all of the genuine interest shown by our leadership, including this committee and the Congress and their appointed civilian leaders in defining, tracking and as best possible, controlling PERSTEMPO.

Our leadership at every level is fully aware of the impact of increased OPTEMPO on sailors' quality of life. Their successes thus far and continuing efforts to do more are making a difference and are greatly appreciated by the force.

Currently, we have a draft initiative to measure and control a new parameter HOMETEMPO or the days in port compared to underway days in a single deployment cycle. This parameter may more accurately reflect how sailors and their families are affected by OPTEMPO.

I ask your support for an OSD legislative proposal to pay single BAQ or basic allowance for quarters and VHA, variable housing allowance, to E-6 single sailors, the heart of our career force.

Approval of this initiative will remedy what is in my opinion the most compelling inequity in our present compensation system and one that impacts directly on the hard working core of our career force, many of whom spend 60 to 70 percent of their career on sea duty. Increasingly, I believe that our force may be getting too small too fast.

I worry not only as the senior enlisted leader of the Navy, but as a citizen of this great Nation. We are physically limited in our attempts to improve the quality of life of the shipboard sailor.

Berthing compartments are necessarily crowded with racks stacked three high and living space per sailor averages 15 to 20 square feet. While there is not room to radically improve shipboard berthing, there is much we can and should do; shipboard voluntary education and fitness options historically very limited are currently being expanded.

Funding for such worthwhile and clearly needed quality of life initiatives is always an issue. We now have an extraordinarily effective program for afloat education. I expect to see it fully installed fleetwide before year's end.

In conclusion, since it is not likely that we will significantly improve their quality of life by keeping them home more, I ask that you support those positive quality of life and compensation initiatives that can better recognize them for their steadfast dedication, loyalty and for their frequent and often long deployments in support of our national interest.

Our Navy and Marine Corps teams are unique; not just deployable, but constantly deployed. Sea service quality of life issues are also unique.

Thank you for this opportunity to speak to a few of these issues. I stand ready to answer your questions.

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NATIONAL SECURITY COMMITTEE

STATEMENT OF
ELECTRONICS TECHNICIAN MASTER CHIEF PETTY OFFICER
(SURFACE WARFARE) JOHN HAGAN, U.S. NAVY
MASTER CHIEF PETTY OFFICER OF THE NAVY
BEFORE THE
PERSONNEL SUBCOMMITTEE
OF THE
HOUSE NATIONAL SECURITY COMMITTEE
ON
READINESS AND QUALITY OF LIFE
7 MARCH 1995

NOT FOR PUBLICATION UNTIL
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NATIONAL SECURITY COMMITTEE

STRESSING THE FORCE

Impacts on Readiness and Quality of Life

House National Security Committee

Mr. Chairman, members of the committee, thank you for the opportunity to discuss with you the impact of operations in 1994 on our Sailors and their families.

As I sit here today, roughly 50 percent of our Navy is underway, either forward deployed or at sea training for deployment. That number, although high, is not unusual, indeed, for the last half of 1994 we averaged just more than 50% of our fleet at sea, and about 25% or 100 ships were on scheduled major deployments (6 months in duration). The balance of our ships were either underway on unscheduled contingency operations or planned training exercises. These numbers do not take into consideration those ships which are undergoing overhaul out of homeport, nor do these numbers reflect aviation squadron or construction battalion OPTEMPO, each of which has its own unique parameters.

Today's Navy does not lack for tasking. Operation United Shield has recently completed off the coast of Somalia, while Naval forces continue to support our national interests in the Adriatic, Western Pacific, Caribbean and Persian Gulf. As you well know, our Active and Reserve Component ships and aircraft are busy around the globe and I see no indication the pace will let up soon.

When I review what our Sailors did this past year, I am filled with a tremendous sense of pride in their many accomplishments. Examples abound;

- In June 1994 the INCHON Amphibious Ready Group, in homeport for only twelve days following an arduous six month deployment to Somalia, was sortied in the midst of a long awaited leave and upkeep period to support developing operations in Haiti.

- In July, our attention was focused on the Korean peninsula as naval forces deployed in support of national diplomatic efforts.

- As the summer continued, our ships including several of our Naval Reserve Force ships, participated in humanitarian and counter-drug operations in the Caribbean, including the rescue of thousands of fleeing Cubans and transporting them to Guantanamo Bay.

- Reserve aircraft supplied total and continuous airlift for our forces deployed around the world, and reservists continued to provide critical PERSTEMPO relief to our deployed forces.

- After many of our ships took part in the deployment of soldiers and Marines to Haiti for Operation Support Democracy, forward deployed naval forces responded to the Iraqi troop buildup along the Kuwaiti border.

- From her operating station in the Adriatic Sea, USS GEORGE WASHINGTON (CVN-73) steamed 4400 nautical miles in only seven days, reaching the Persian Gulf on 15 October fully ready for any mission she may have been assigned.

- USS JUNEAU departed her homeport on what was scheduled to be a routine training exercise (RIMPAC 94) and ultimately spent 4 1/2 months as "mother" ship for our mine countermeasures forces operating in support of contingency operations in the Sea of Japan. This "unscheduled" deployment was limited to 4 1/2 months in order to permit sufficient time in homeport prior to her next scheduled deployment.

- HS-5 is a helicopter squadron homeported at NAS Jacksonville, Florida that returned from deployment last November. The squadron, scheduled to deploy again next January, is in the midst of a transition to the newer SH-60 LAMPS III helicopter as part of our modernization program. To complete this complex, but necessary, transition between deployments is a daunting task for all involved. What is normally a predictable year of maintenance, training, leave and upkeep becomes a period of very hard work and constant pressure.

As the squadron's Command Master Chief explained what his Sailors were doing and describing their accomplishments and "can-do" spirit, he was literally overcome by emotion. The Sailors' primary concerns were simply getting the job done and done right the first time. My visit to this particular squadron filled me with tremendous pride and gave me a great feeling of confidence in the future.

I was privileged to visit many of the ships which took part in the operations I just described, often while the ships were still on station. I'm very pleased to report to you that any complaints were few and far between, despite the arduous nature of the missions and the increased personal and family stresses imposed. On the deckplates, there were certainly plenty of questions for me and some requests for assistance to help ease the burdens brought about by special circumstances.

It is clear to me the operations of the past year, of which I mentioned only a few, imposed a significant strain on the Sailors in our ships and squadrons.

But bearing this strain is part of what we do. Sailors realize it is why we have a Navy - a strong, forward deployed, ready Navy. We are not about to complain about doing our duty. I will however, voice concern over the potential costs of continuing an increased PERSTEMPO level indefinitely. This increase occurred just as we are nearly through with the downsizing that has seen us decommission more ships in the past two years than are in the navies of France, Britain and Japan combined.

Our new ships possess many sophisticated capabilities and greatly increased firepower, but each ship can still only be in one place at one time. The vastness of the oceans subject us to fundamental constraints of time and distance that technology cannot overcome. To continue to do more with less means we must work our ships, aircraft and Sailors harder. I worry about the implications of this pace for the future both as the senior enlisted leader in the Navy and as a citizen.

It requires extraordinary effort to maintain a warship in a constant mission-ready status. When the ship is in homeport, the crew is challenged by a heavy maintenance workload and the constant training and preparations required for upcoming operations. There is a never ending cycle of inspections, certifications and requalifications. The result is, quite simply, not much of a break for the Sailor between major deployments.

We cannot complain about this arduous cycle of training and maintenance for not only is it necessary to keep our ships combat-ready, but it saves Sailors lives in times of peace and conflict. Hard work and long hours are the unavoidable price of readiness. The pride of our crews in their efforts to stay combat ready are reflected in their ship's mottos: "The Price of Freedom is Eternal Vigilance" (USS PHILIPPINE SEA) and "Determined, Ready and Resourceful" (USS DAVID R RAY).

We are now holding the line for most surface ships, aviation squadrons and submarines at a 2:1 turnaround ratio. This fact alone tells you the Sailors are working harder, increasing both the strain on them and the time away from their families.

We see the results of this increasing strain in a wide variety of ways, from the impact on young Sailors with families to the way it affects the retention of our most highly trained and technically competent petty officers, those with the most options for outside employment.

More of our Sailors are married, and a growing number of them have children. Our Family Services Centers are increasingly being called upon to help these young families cope with the stress of everyday life compounded by the strain of frequent

lengthy separation. Adding to these difficulties, our Sailors face a growing pay gap that translates to shrinking purchasing power on an already tight budget.

Tab A is a graphic display of some of the basic OPTEMPO data I have referred to; Tab B is a "best case" representation of the in homeport time for an average Sailor in a sea intensive rating over a 5 year sea tour. Bear in mind when you review Tab B that this is the Sailor's life when the system works. Any perturbations in the interdeployment cycle, such as unscheduled contingency operations or a more intense work-up schedule subtracts from the number of days "at home".

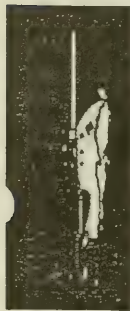
If we do not pay adequate attention to the Quality of Life for our Sailors, both those who are single and those with families, then I predict a gradual loss of faith will occur on the deckplates. This loss of faith will then become a loss of experience as our best and brightest, tired of coping with many difficulties they feel should have been foreseen and prevented by their leadership, will seek opportunity and equity elsewhere. This loss of experience would lead directly to diminished readiness, from which the recovery will be costly in time, money and effort.

Fortunately, our Navy's leaders are doing everything possible to minimize further increases in PERSTEMPO and the impact of those increases which cannot be avoided, including the maximum of use of Reserves wherever and whenever appropriate.

There is only so much to be gained from such efforts and I fear that we may be approaching the limits of efficiency with our creative and resourceful solutions. We have come a very long way since the "hollow force" of the seventies, but I can still well remember how small, seemingly innocuous degradations resulted, over time, in an alarmingly ineffective force.

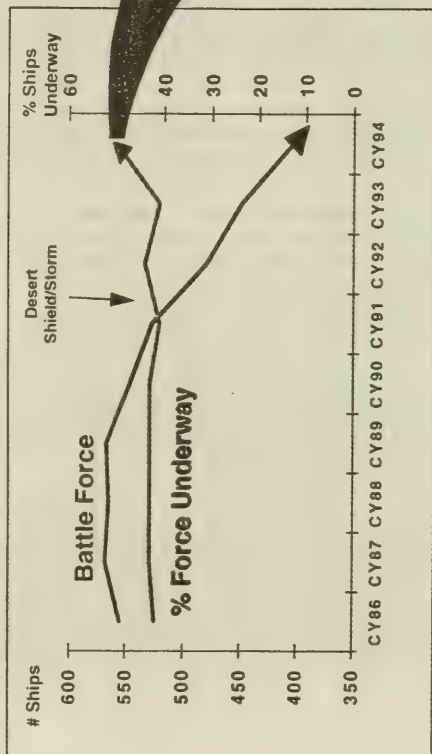
Our Sailors do not expect to become rich in the service of their nation, nor are they motivated by a "what's in it for me" attitude. But they do expect to be treated fairly. They do expect that their sacrifices, and those of their families, are recognized and appreciated. They do expect their worth to be valued by their country.

Right now we have the finest Sailors in the world, the best ships and aircraft, operating "Forward...From the Sea". I urge you to keep faith with these Sailors, and the families who both depend on them and support them. Pay them fairly, house them decently, and invest in their future. Just as important, I urge you to ensure the size of the force is adequate to accomplish the missions assigned. These Sailors will not let you down - they never have, they never will. I'm very proud to represent them.



Need for Naval Forces--

are we
doing now



not
decreasing!

Petty Officer I. M. Able**Sea
Duty**

Sea / Shore Rotation 5/2	1825 Days
3 Deployments (6 months)	540 Days
Interdeployment Operations	348 Days
Inport 1 in 4 Duty Days	+ 197 Days
**Total Days Away	1085 Days

** Petty Officer Able is away from home 60 percent of the time

PETTY OFFICER ABLE

1. Makes sacrifices everyday to do a job that is necessary and important. Has no complaints about three or four section (sometimes two section, port and starboard) watch rotation at sea. Doesn't complain about four section duty rotation inport.
2. Day in and day out, Petty Officer Able *—like all our Sailors at sea—* is on the job, giving more than most people can imagine in order to keep our ships fully ready.
3. Petty Officer Able is a national treasure and a precious natural resource. Like all such treasures, we must take care of this Sailor -- and his family -- for others covet his skills and dedication. Like all natural resources, we must use him wisely so he will be there in the future.

P. O. Able is truly a "Can Do" individual.

Proven time and time again, Able has come through.

We all bear a tremendous responsibility
for the welfare of the young men and women
we send in harm's way.

TAB B

Mr. BATEMAN. Thank you very much Master Chief. Now, it is my pleasure to recognize Sergeant Major Overstreet.

**STATEMENT OF SGT. MAJ. HAROLD G. OVERSTREET,
SERGEANT MAJOR OF THE MARINE CORPS**

Sergeant Major OVERSTREET. Thank you very much, Mr. Chairman and distinguished Members of the committee, ladies and gentlemen. Indeed it is a pleasure to represent your Corps of Marines before this committee.

The Marine Corps, like its sister services, is adjusting to operating in a new environment; an environment characterized by sustained worldwide, forward deployed requirements, diminished resources and a host of challenges spawned by the new world order.

The challenges we face as an institution are not limited to our technical or tactical facets of profession of arms. Rather they transcend the battlefield to include emerging social changes in and out of the Marine Corps. Only within the past year have we achieved our final force reduction goals rendering the leanest Marine Corps that this Nation has seen in over 30 years.

With the reduction of our armed forces, the steady stream of folks separating from the service, and almost termination of the recruiting advertising, not to mention a widely publicized media coverage of our base realignment and closures, we have created the impression to middle town America that we are going out of business.

This has made our job of contracting quality young men and women most difficult. In 1994 the awareness and attitude study showed that advertising awareness for the Marine Corps is the lowest it has been since 1989. Furthermore, after the young men and women, that is the community which we target for enlistment in the U.S. Marine Corps, hear of this 47 percent of them would consider it.

I must tell you, this is a much higher percentage than any of us share with our service today. Fifty-six percent felt the national service plan and other programs were better ways to get money for college rather than serving in the military.

Even though education is not our primary mission, often times job skills and opportunity for education is a dominant buying motive for the types of young men and women we are looking for to serve as marines today.

Why quality? Simple; better performance, less attrition and it improves readiness. It is simply the most cost effective way to invest in our future. Also, in this recruiting aspect, you have to understand that two-thirds of the Marine Corps are first-termers. When we loose that advantage, we loose something within the operating force.

I suggest this quality shows up later on as well. Even in OPTEMPO, as high as it is today, our reenlistment rates are extremely high. As a matter of fact, I only have 118 more boat spaces to fill before the end of the fiscal year to obtain 100 percent first-term reenlistment requirements.

The marines clearly understand the Commandant's commitment to improve our quality of life which includes additional morale, welfare and recreation support, new and renovated bachelors' quar-

ters, family housing units as well as additional support for child care and family service programs.

Marines also understand who they are and what they do. Being a marine, being amphibious and expeditionary in nature, and as such being America's 911 force, they deploy. Today, we have 7 of our 24 infantry battalions deployed. We have 10 of our 31 helo squadrons deployed and 8 of our 27 fixed wing squadrons deployed.

I might add in conjunction to that, we just had two battalions and a squadron turn within the last couple of weeks. As you can see, about one-fourth of the Marine Corps operating force is deployed. I would suggest, deployed in periods of 6 months or more away from their home base and away from their family.

Marines are ready, revalent and capable. They are also motivated. They are in possession of a lean and forward attitude to accomplish any mission or to answer any 911 call that this Nation may call upon them.

This actually concludes my opening testimony. I would suggest to you we cannot fight an all out firefight for 36 days or more, sir. Thank you and I look forward to answering your questions.

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NATIONAL SECURITY COMMITTEE

STATEMENT OF
SERGEANT MAJOR HAROLD G. OVERSTREET
UNITED STATES MARINE CORPS
SERGEANT MAJOR OF THE MARINE CORPS
BEFORE THE
READINESS AND PERSONNEL SUBCOMMITTEES
OF THE HOUSE NATIONAL SECURITY COMMITTEE
7 MARCH 1995
CONCERNING
READINESS AND PERSONNEL ISSUES RELATING TO OPERATIONS

NOT FOR PUBLICATION UNTIL
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NATIONAL SECURITY COMMITTEE

Mr. Chairman and members of the subcommittee:

My name is Sergeant Major Overstreet. I am the Sergeant Major of the Marine Corps.

Although pressure on our recruiting program and recruiters remains unabated and challenges have grown, there is reason for some optimism.

I am pleased to report that we met our qualitative and quantitative accession goals for FY94.

Indicative of continuing difficulties, however, the Marine Corps along with the other Services missed FY94's contracting goal. Contracting serves as the most important measure of future recruiting success. If we fill delayed entry pools today, we will meet tomorrow's accession requirements. Significantly, this is the first time the Marine Corps fell short since before FY80. Through the first quarter of FY95, while each of the Services met their shipping goal; they struggled to meet their requirements for new enlistment contracts unsuccessfully. This dilemma is symptomatic of a tough recruiting environment. My concern is future year recruiting when each of the Services will be seeking increased accessions.

By last year's congressional testimony and the Deputy Secretary of Defense's Senior Panel on Recruiting, talk of the difficulties has emerged from the confinement of recruiting offices and headquarters conference rooms. As a result, the Marine Corps and the other Services benefitted from Congress':

(1) elimination of the legislated 10 percent reduction in recruiters; (2) FY95 budgetary plus-up for recruiting and advertising programs; and (3) passing a stateside cost of living allowance (COLA). Recruiting duty remains arduous. The stateside COLA will help recruiters and their families (as well as other Servicemen and women) who must cope with living in high-cost areas away from the advantages of on-base support.

We appreciate these congressional actions. At the same time, however, challenges crowd the horizon. Recruiting missions begin to rebound from the artificially low levels during downsizing. By FY96, accession missions jump dramatically for all the Services. As compared with FY94, Marine Corps requirements increase by 9 percent in FY96, and 14 percent in FY97. Accession requirements have increased for a variety of reasons, but primarily because the Marine Corps has reached its steadystate end strength. At this point, downsizing is complete and accession requirements must increase to maintain a constant strength.

Meanwhile, missed contracting goals create a predicament. To continue meeting accession goals in FY95 the Marine Corps must rely more heavily on recruiting from the tough direct market, i.e. qualified prospects who are willing to commence active duty right away. At the same time, we must rebuild our Delayed Entry Program pool to gird for the higher recruiting missions in FY96 and FY97.

Our Fall 1994 Awareness and Attitude Study provides insights on America's youth. Advertising awareness for the Marine Corps

is at its lowest level since 1989. This is a likely result of the deep reductions in advertising funding since FY90. Lack of interest in the military overall remains at the high levels reached two years ago. The number of young Americans describing themselves as a simply "not interested" in military service has increased significantly from a year ago; yet four out of five of those surveyed have a favorable opinion of the military in general.

With peacekeeping operations like Somalia and Haiti, however, they sense an uncertainty about the future role of the military. In fact, involvement in Haiti made them less (or much less likely) to consider joining. Further, a full 30 percent felt that the value and prestige of the military has suffered.

In that regard, the recent attention given to homosexuals in the military has not helped the military's image. Among prospects, almost half still feel that the military is hiring less due to defense cuts and base closures.

Furthermore, after hearing about the AmeriCorps concept (National Service Plan), 47 percent of prospects said they would consider it. This represents a greater level of interest than that enjoyed by any of the Services. Fifty-six felt that the National Service Plan and other programs were better ways to get money for college than the military. Prospects, informed about it, said they would definitely look into the National Service. This indicates that prospects with some interest in the Military are open to other alternatives. This is especially true as the

unemployment rates have dropped. Low unemployment makes recruiting especially difficult.

At the same time, we are stepping up our efforts to recruit greater numbers of minority men and women. Our Nation's growing racial diversity compels us to implement recruiting strategies which will help make our officer and enlisted ranks as representative of America as possible. The number of young men and women who are minority in America will grow significantly. Consequently, our commitment will require continued focus and new initiatives to meet with success. Our task is formidable because propensity to join has declined unevenly among minority groups.

Similarly, the expanding role of women in the military underscores the need to rethink the fundamentals of recruiting women and more of them. The Marine Corps is increasing opportunities for women. From FY94 to FY99, Marine Corps women accession requirements rise by 80 percent.

Elevated accession requirements and a tough recruiting environment, however, account for only part of the recruiting work load facing our recruiting community. The National Voter Registration Act of 1993 places an additional administrative burden on our recruiters. Each recruiting office must now serve as a voter registration agency. Modifying this law to exempt recruiting offices from this responsibilities would be helpful.

The recruiting challenges we face are numerous. Nonetheless, with a trimmer Marine Corps, and continual technology advances, our Marines must remain talented and versatile.

Consequently, quality recruits are more critical than ever. High quality recruits mean better performance and less attrition. They improve unit readiness. High quality recruits make a wise investment simply because of the cost-effective nature of their service. We recognize the false economy of lowering quality standards. As a priority matter, therefore, we will maintain our standards.

Despite the many challenges, we have good reason for optimism. Recruiting difficulties are gaining attention and Congress has been supportive of our needs. Moreover, between now and the year FY00 the size of the youth population begins to grow steadily, albeit very slowly. Most importantly, the American people continue to value what the Marine Corps represents.

With their support and through our durable image, the Marine Corps will continue to attract sufficient numbers of high quality young Americans willing to serve their country as U. S. Marines.

To ensure the necessary flow of quality recruits, we must maintain a solid team of recruiters. We need to work on arming them with more active public support. By this I mean positive endorsements of military service by community, state, and national leaders. Our recruiters also need the resources including the necessary advertising resources which will enable them to accomplish their mission with a reasonable amount of effort and a modest quality of life.

The Marine Corps most potent answer to an unpredictable and potentially turbulent world is still the individual Marine. A

top priority, therefore, is to continue to recruit many of the Nation's finest young men and women. To do so, the Marine Corps remains committed to strong and adequately resourced recruiting programs.

The Marine Corps, like its sister Services, is adjusting to operating in a new environment -- an environment characterized by sustained world-wide, forward deployed, requirements, diminished resources, and a host of challenges spawned by a new world order.

The challenges we face as an institution are not limited to the technical or tactical facets of our profession of arms. Rather, they transcend the battlefield to include emerging social changes within our armed forces. In 1994 we achieved our final force reduction goals rendering the leanest Marine Corps that this nation has seen in over 30 years. At the same time, we have witnessed the continuing growth in the number of military family members. This has, of course, increased the demand for services and support the likes of which we have not seen, and for which we were admittedly ill-prepared.

We have taken great strides to meet the needs of our Marines and their families, but concede that we can continue to improve. By some comparisons, we are behind our sister Services in per capita expenditures for social support to our people. The Commandant recognizes this and is thankful for your initial support to our QOL upgrades, and those of the Secretary of Defense. As a further measure, he has commissioned a special task force to recommend to him a strategic (five year) plan for

the future. This task force--"MARINES 2001-A QUALITY LIFE" is working on a plan that will continue to capitalize on the current momentum and carry us into the next century. We have committed scarce operational dollars to ensure our quality of life programs provide the most essential services, and we balance very carefully any requirement to divert additional resources to these deserving programs without compromising readiness. As such, we find ourselves dependent upon you for much needed help to close the gap and improve the quality of support for our Marines and their families.

Some of our immediate concerns focus on reducing family violence and alcohol abuse within the Marine Corps, providing adequate funding for Morale, Welfare and Recreation (MWR) programs, and providing quality, affordable child care for our Marines and civilian employees. We are equally concerned with improving the quality of our housing for both single and married Marines. While there are others, I will specifically address these concerns in my remarks.

Before I do, however, I want to stress that the most important aspect of quality of life is to bring Marines home safely from the battlefield. The way to do this is through tough training, equipment that works, and quality Marines who can think on their feet. So, as I point out to you the things we are doing and the resources we need to improve and sustain our programs, the dollars to fund them cannot come at the expense of currently financed readiness, recruiting, and equipment programs.

Family Advocacy

Family violence is clearly a negative and destructive phenomenon. Its adverse effects extend well beyond the walls of the family unit into the work place and the surrounding community. The shattering effects of such violence compromise not only family integrity, but also degrade our military readiness. Dealing with these incidents drains organizational resources and absorbs much of a unit's leadership's time and energy. For these, and other equally compelling reasons, the Marine Corps has initiated a "Coordinated Community Response" (CCR) to deal with family violence episodes. As its name suggests, this initiative stresses a coordinated community approach to helping Marines and their families. The emphasis is on proactive community involvement and shared responsibility among military/civilian law enforcement, judicial and medical agencies in responding to family violence. Our 18 Family Service Centers located at our major installations operate our family violence program using the CCR approach. We hope to stem the tide of family violence through education and a concerted leadership effort. We must get the message across that such behavior is not acceptable and not in concert with Marine Corps core values and standards.

Alcohol Abuse

The abuse of alcohol is without a doubt a destructive force throughout our ranks. It not only impacts on the individual Marine, but extends into that Marine's unit, family, and communi-

ty. The combined effect degrades military readiness and places an extra strain on organizational resources which must be committed to overcoming the problems which result from alcohol abuse.

As a result of alcohol abuse and its wide-ranging impact, the Marine Corps has initiated programs to educate our Marines on personal responsibility and to train our leaders to recognize early warning signs and symptoms of developing alcohol problem. Through our health promotion program, Semper Fit 2000, we are emphasizing the advantages of a healthy lifestyle, which includes preventing alcohol abuse. For those in need of help, we offer comprehensive outpatient treatment services in coordination with various counseling resources at our 18 Substance Abuse Counseling Centers, located at each major installation.

We will continue to strive to eliminate the abuse of alcohol and numerous problems that result. All Marines must learn that alcohol abuse is inconsistent with our core values and will not be tolerated in the Marine Corps.

Morale, Welfare, and Recreation

The role played by Morale, Welfare and Recreation (MWR) in providing quality of life cannot be overstated. MWR programs and activities touch all Marines and their families in one way or another. From the libraries used to support off-duty education to intramural sports competitions which support physical training and unit camaraderie, MWR helps Marines' well-being. The mission is accomplished through the delivery of over 20 major quality of

life program components within MWR, including community, individual recreation skill, food and beverage, and resale programs. The variety of programs under the MWR umbrella is continually reviewed to ensure Marine satisfaction and mission contribution.

To further define Marines' needs and desires for MWR activities, we conducted numerous customer research projects in 1994. The results are being used to determine a new direction for our traditional activities, such as Enlisted Clubs. Most importantly, we completed a baseline review of all MWR facilities to determine requirements for renovation, improvement, and new construction. This is particularly important to young single Marines who have already identified in our two year study that they want state of the art fitness centers because working out is their greatest leisure activity. With a Corps composed of 49 percent lance corporals and below, we must address these requirements.

The completion of our Marine Corps MWR Strategic Plan this past year, and its initiation in 1995, represents an important milestone. Each command's MWR program will work as part of an integrated system to support the accomplishment of seven strategic goals that benefit all Marines. These goals focus on the themes of restructuring, program improvements, capitalization, resourcing, information systems, human resources, and image enhancement. Our restructuring initiative will focus on deleting inefficient and redundant functions through regionalization,

centralization, elimination, or outsourcing to maintain our efficiency and competitiveness.

While the challenges are many, the future is brighter in 1995, and the years beyond, due to the renewed funding commitment of the Secretary of Defense's Quality of Life Initiative. By bringing the Corps' MWR appropriated funding on par with the other Services, significant improvements will be achieved. Continued improvements in the timeliness of our services and management decision-making processes, and significant capital investment in equipment, facilities renovation, and construction will improve our program for Marines and their families.

Child Care

The relative importance of child care services has grown markedly in recent years as our family member population has surpassed that of active duty members. On October 1, 1994, we established a Children's Programs Branch within our Human Resources Division to provide oversight for Marine Corps Child Development Programs. Our goal is to assist Marine Corps personnel in balancing the competing demands of family life and mission accomplishment. We also hope that these efforts will improve the economic viability of young families.

In FY 1994, our Child Development Programs provided access to 10,000 child care spaces serving children, ages 6 weeks through 12 years, in full-day, part-day, and hourly care programs. Our goals for FY 1995 are to increase the availability of

services and improve the delivery of full-day and part-day care for infant/pretoddlers and school-age children and hourly care for eligible children of all ages. We anticipate expanding our capacity to 12,000 spaces by 1996. If additional resources can be identified, the need is 18,000 by 2001.

Housing Programs

Food, clothing, and shelter have long been considered the most fundamental of human needs and are increasingly ascribed to the concept of human dignity. Our Marines rightly expect that, even at the most rudimentary level, we will provide for these needs. In the past, housing has often been overlooked, yet is a basic contributor to the quality of life equation.

Bachelor Quarters

Congress has expressed a desire to ensure that single Service members are being provided with living conditions that are on par with their married counterparts. Equally, our QOL study clearly shows that single Marines expect attractive, comfortable, and private quarters (barracks). The Commandant of the Marine Corps approved the Bachelor Housing Campaign Plan in June 1994 that strives to upgrade bachelor housing as part of the overall effort to improve the quality of life for our enlisted Marines. The plan addresses point-in-time goals for maintenance and repair, new construction, revitalization and utilization. Beginning with FY 1994, the plan strives to:

- a. obtain maximum utilization/occupancy of adequate barracks space;
- b. revitalize (repair, environmentally abate, and modernize) man-spaces through FY 1999;
- c. eliminate maintenance backlogs;
- d. reduce deficits; and
- e. provide personnel support equipment and amenities for individual rooms, common areas et cetera, that meet the current standards.

In addition, the Marine Corps is participating with the other Services to determine a uniform barracks standard for new construction and rehabilitation projects.

Family Housing

As with barracks funding, military family housing competes with other Marine Corps priorities for funding. Despite their relative importance to the quality of life equation, family housing projects may not ultimately rank among overall top budget priorities for a command dealing with fiscal constraints. Reductions on the margin, such as cuts in minor maintenance and repair, only exacerbates the problem. Lack of funding in the near term results in continued degradation to the point at which they become major repair projects.

Despite this rather candid outlook, there are some positive developments on the horizon. First, as with the Bachelor Housing Program, the Commandant of the Marine Corps also published a

Family Housing Campaign Plan in June of last year. It sets as its priorities:

- maintaining and modernizing our current inventory;
- eliminating our deficit;
- building support facilities to enhance quality of life; &
- improving housing referral.

Second, the Marine Corps has made a conscious effort to support this plan as evidenced by our reallocation of resources to increase our FY 1996 family housing budget by 16 percent.

Third, as a result of OSD plus-ups, the FY 1996 President's Budget submission includes provisions for the construction of 69 junior enlisted family housing units at Camp Pendleton at a cost of \$10 million. Similarly, the FY 1997 President's Budget submission will provide for an additional 102 new junior enlisted and 31 senior enlisted family housing units at Camp Pendleton, helping alleviate the critical housing shortage experienced there. This is particularly significant since the Marine Corps defines junior enlisted as military members in pay grades E-5 and below (in contrast to the Navy definition of E-6 and below). This is the population least able to absorb the high living costs incurred in the surrounding communities when base housing is not available.

Conclusion

Historically, the Marine Corps has had to make difficult choices between operational readiness and quality of life pro-

grams in order to fund the latter adequately. These choices have, in some categories, kept us below par when compared to the other Services. Secretary Perry's initiative to increase quality of life funding for all Service members will certainly continue to improve conditions for our Marines and their families, but as the gap between requirements and resources widens, we recognize that future programming tradeoffs may continue to be necessary. Our readiness and operational responsiveness remain our number one priority. We will not "mortgage the future" of our operational forces in order to disproportionately add to the coffers of quality of life. Operational necessity precludes immediate additional investment in some of these well-deserving programs. Until such time as adequate funding is available to preserve our critical core capabilities, which define our readiness as a Service, resources cannot be diverted at the rate we would like to overcome quality of life deficiencies.

As I have previously noted, the Marine Corps has recently identified military member quality of life needs in an exhaustive two year study. We are currently reviewing the results of that survey to develop the overarching strategic plan mentioned earlier which will satisfy those needs. I think it important to note that our long-range, or, strategic plan will fold-in all of our already standing QOL initiatives and campaign plans. We believe our efforts have both life and texture, and that they will result in the improvements all of us are looking for. Most importantly, our strategic plan will also allow us to accurately

and credibly reflect the needs of our Marines and their families and to realistically prioritize those needs in our budget requests.

In recent years, the themes of "Relevant, Ready, and Capable" and "America's 911" force have defined the focus of effort of your Corps. Today, I have announced, for the Commandant, a third theme, one that emphasizes the priority we put in improving and, then sustaining the quality of life of our Marines and their families. "Marines 2001 -- A Quality Life" is more than a slogan--it is a commitment. We believe it complements the readiness and responsiveness which have proven to be the worth of the Corps. Moreover, it is the theme that will serve to guide our aggressive Quality of Life programs that, I assure you, have the Commandant's full attention.

Mr. Chairman, subject to any questions you may have, this concludes my remarks.

Mr. BATEMAN. Thank you very much Sergeant Major. Now, the Chief Master Sergeant of the Air Force, Sergeant Campanale.

**STATEMENT OF C.M. SGT. DAVID J. CAMPANALE, CHIEF
MASTER SERGEANT OF THE AIR FORCE**

Chief Master Sergeant CAMPANALE. Good afternoon, Mr. Chairman and members of the committee. It is an honor and privilege to appear before you this afternoon to discuss stressing the force impact on readiness and quality of life.

Among the Air Forces' many challenges today is to adapt to our role in humanitarian peacekeeping efforts while retaining our current war fighting capabilities, along with modernizing the force through technological advances and providing a quality of life worthy of our people.

We want to meet each challenge first and foremost without causing any additional stress on our personnel. There are several ways we can help Air Force people deal with the stress associated with the current mission profiles and OPTEMPO.

The areas most crucial here are minimizing the impact of deployments on families; training, both technical and professional for our personnel, getting the right people to serve in our U.S. Air Force, compensation issues and continuing to improve military housing; homes for both accompanied and unaccompanied personnel.

We need to minimize the impact of deployments on families first and foremost. Many of our people in weapons systems participate in deployments that far exceed our goal of 120 days per year.

We have received some relief from our Air National Guard and Air Reserve components, which are involved in more mission areas than ever before. They too feel the impact of family separation and one other stressor; pressures from their employers.

A continuing emphasis on training is absolutely paramount. It is an important investment that prepares the force to accomplish mission objectives more effectively and with minimal loss of life.

We bring our high training standards to more than 50 major joint and combined exercises around the globe each year. Our technical schools today are better than ever utilizing state-of-the-art equipment that provides real life scenarios necessary for our troops who are new to the Air Force.

While we work the OPTEMPO and continue to emphasize training, we must also continue to recruit. Again, getting enough people to serve is not the question. It is instead an issue of getting the right people.

In order to recruit and retain the right people, we must provide them and their families with the right environment in which to work, live and play.

We are using a prioritized list of quality of life initiatives to guide our corporate efforts, to improve the lives of every member of our Nation's Air Force team. Key among the compensation initiatives is continuing to work to close the pay raise gap.

The current 12.6 percent gap is projected to increase to over 18 percent in the next 6 years. We owe it to our people not to let the gap widen and to commit ourselves to closing the gap as much as humanly possible.

One other area I mentioned earlier is housing. I believe no other facility program influences the performance and commitment of our people as much as having a quality place to live; whether it be a house or a dormitory room.

We appreciate the support Congress has given us for housing programs in the year past. The journey is still far from over. Quality housing enables our people to deploy with assurances that their families are safe, secure and comfortable.

These are by no means the only areas that command our attention; health care, commissary benefits, more and better child care, morale, welfare and readiness which are MWR programs. Educational opportunities are all vital recruiting and retention issues for enlisted people and their families.

All of these areas I have touched on are directly tied to quality of life. Quality of life directly equates to readiness of your military force. Improvements of quality of life programs will enhance readiness as we recruit and retain the right people for the best Air Force possible.

Through our initiatives to put more money into our troops' pockets, to create better living accommodations and to improve the overall Air Force community environment, we have sparked a new sense of determination and optimism among America's Air Force teams. This concludes my prepared statement.

Mr. Chairman, and members of the committee, I would be honored to answer any questions you may have.



DEPARTMENT OF THE AIR FORCE

**PRESENTATION TO THE SUBCOMMITTEES ON MILITARY
READINESS AND MILITARY PERSONNEL**

NATIONAL SECURITY COMMITTEE

UNITED STATES HOUSE OF REPRESENTATIVES

**SUBJECT: STRESSING THE FORCE: IMPACT ON READINESS
AND QUALITY OF LIFE**

**STATEMENT OF: CMSgt David J. Campanale
Chief Master Sergeant of the Air Force
Headquarters, United States Air Force**

MARCH 1995

**NOT FOR PUBLICATION UNTIL RELEASED
BY THE NATIONAL SECURITY COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES**

Good morning Mr. Chairmen and members of the subcommittees. It is an honor and a privilege to appear before you to discuss Stressing the Force: Impact on Readiness and Quality of Life.

In this post-Cold War era, our Air Force still retains the capability to defend the United States through control and exploitation of air and space. One of the Air Force's challenges today is to adapt to a role in humanitarian and peacekeeping efforts while retaining current warfighting capabilities, keep pace with technological advances and provide a quality of life worthy of our people.

Since 1986, the Air Force has made significant reductions in military strength and in the process, turbulence and an undercurrent of uncertainty throughout the force has been created. We're nearing the end of this drawdown and the drawdown as an issue has dissipated, however, the decision to do so has had an effect on our people and how we do business. One of those business changes has been our approach towards training.

One of our most important investments to Air Force members is training. Training prepares the force to accomplish mission objectives more effectively and with minimal loss of life. Realistic day-to-day training is the foundation of readiness. Our daily operations increasingly emphasize composite and joint force operations to build on basic skills. We also continue to enhance combat training through simulation, which provides a supplement to field operations. The proposed Idaho Training Range (ITR) is a good example of the composite training needs. The ITR will improve readiness by providing quality, realistic, cost effective training while recognizing environmental concerns. Similarly, the Air Force is a full partner in major Army exercises at the National Training and Joint Readiness

Training Centers. Finally, we bring our high training standards to more than 50 major joint and combined exercises around the globe each year.

Our technical schools are better than ever, utilizing state of the art equipment that provides the real life scenarios necessary for our troops who are new to the Air Force. They learn quickly and better than ever before not only because our training is mandatory but also because the trainees themselves are highly skilled and motivated people. All recruits now receive technical training before they arrive at their first duty location and return for subsequent training at different stages of their careers to update their technical, professional and leadership skills.

These people are indeed special and are undeniably our most important asset, but the stress associated with high deployment tempos is beginning to wear on them. By the end of FY95 we will have reduced the force by 34% since FY88. Yet, the number of people deployed has increased four-fold. For many of our people and weapons systems, this means deployments that far exceed our goal of 120 days per year. These separations extract a price on our people and just as importantly on their families.

These are professionals who know this comes with the territory and who are proud of what they do. Nevertheless, we need to help by seeking ways to lower deployment burdens. Our Air National Guard and Air Force Reserve are answering the call in a superb manner. Today, we rely upon our reserve components in more mission areas than ever before, but they too are feeling the impact of this busy pace. For some members of the Guard and Reserve, their civilian employers will need to be even more supportive of the program as we rely on their assistance more and more.

As we continue to carefully work on relieving deployment burdens, by relocating resources, we must also look at how this high ops tempo affects one's personal life. I call it a "Quality of Life Checkbook" that has an unknown balance. You can't find out what the balance is, and every time you write a check on this account with a new deployment pay or benefit change, housing issue or any innuendo that we don't appreciate what our people do, that unknown balance decreases. If we're not careful, eventually we'll get to a point where we'll write a check that bounces and we'll have to spend two to three times as much money to cover that check.

What I'm referring to is a "morale balance," one that has to remain high and get regular deposits in the form of continued Quality of Life initiatives that help the enlisted men and women of the United States Air Force carry out their mission.

Today, getting enough people to serve is not the question or concern -- the issue is instead getting the right people. In order to recruit and retain the right people, we must provide them and their families with the right environment in which to work, play, and live. We are actively and substantially pursuing improvements in these areas. To that end, we have developed a prioritized list of Quality of Life initiatives to guide our corporate efforts and to improve the quality of life of every member of our nation's Air Force team. Some of the initiatives involve continuing programs that are already funded and which we will continue to support. Some are new items that are funded in the FY 96 President's Budget that we look forward to seeing come to fruition. The remaining items are areas we will work as funding becomes available. Viewed in its entirety, our priority

list provides us a comprehensive, coordinated approach to make significant improvements in the Quality of Life for Air Force people.

Our number one priority, as proposed in the President's Budget, is to pursue full pay raises allowed by law, but even that legal limit puts our people further behind the civil sector as each year goes by. We remain committed to fair and competitive pay that allows our people to maintain a reasonable standard of living commensurate with that enjoyed by their fellow Americans.

Military pay raises are not keeping pace. The difference between the annual pay raise and the annual raises received by the average American is "pay raise gap." Since pay compatibility was last achieved in 1982, civilian pay raises have exceeded the annual military pay raise in 10 out of 13 years. The current 12.6 percent pay raise gap is projected to increase to over 18 percent over the next six years. Furthermore, inflation has similarly exceeded military pay raises over the same period. The current "inflation gap" of 4 percent is expected to reach 8 percent by the end of FY2001.

As in the years past, the Air Force leadership considers housing both for unaccompanied and accompanied personnel to be one of the top discretionary facility and quality of life programs. I am convinced that no other facility program influences the performance and commitment of our people as much as having a quality home, whether it is a house or a dormitory room. We appreciate the support congress has given us for our housing programs, but the journey is far from over. Quality housing enables our people to deploy with assurance their families are safe, secure, and comfortable. Unfortunately, we do not have enough quality housing to go around. The average age of Air Force housing

is 32 years, and we have over 60,000 homes that require improvement or replacement. Despite its age and condition, demand for on-base housing is high: more than 39,000 families are on waiting lists as of today.

Improvements are also needed in dormitories for our single and unaccompanied personnel. We continue to renovate dormitories that still have the old central bathrooms, converting them to the room-bath-room configuration. Privacy is the number one housing request among our young airman. We have joined with the other services to develop a new dormitory construction standard, and we are awaiting a SECDEF decision on what that standard will be. We are committed to upgrading the living accommodations of our junior members.

Health care is another major recruiting and retention issue for our enlisted people and their families. This is especially true in the areas of reduced access to medical care and the increased out-of-pocket costs associated with using CHAMPUS when the care for their dependents is either not available or not timely in a nearby military facility. Health care ranks as the number one non-cash benefit, for the member and their families. But as members have to rely more on CHAMPUS, which requires them to pay annual deductibles and share the cost of in- and out- patient care, the perception is an erosion of this benefit which members believe was promised in exchange for service to their country. The TRICARE program, which will be implemented over the next two years, was designed to counter this perceived erosion by improving beneficiary access to care and assuring affordable and high quality care, while containing overall health care costs. Quality health care is an obligation we owe to Air Force retirees as well.

Our expanded preventive health programs and total fitness programs pay big dividends. Readiness is enhanced and medical care dollars saved by preventive health programs, such as smoking cessation and dietary and fitness counseling and overseas dental care for families. We need to expand an integrated medical self care initiative to train, educate, and assist all AF people in the art of personal self care, disease prevention and health promotion.

One area that has received a lot of attention recently is our increased OPTEMPO which has led to increased family separation and personal hardship. As we reduce the size of our force, we have also seen an increase in our deployment commitments around the world. On average, four times as many Air Force people are deployed today as there were in 1989. Our people are busy enforcing no-fly zones over Iraq and Bosnia, maintaining humanitarian airlift bridges in support of those in need of our help in Bosnia and the Caribbean and interdicting illegal drug traffic in South America, to cite a few examples. Our people professionally meet these challenges, but they must know their work is appreciated and their families back home are in good hands. Making sure they are appreciated is a leadership challenge and our quality of life priorities seek to do just that. We have changed our TDY accounting process to ensure everyone gets credit in the assignment system for the time they spend away from home. To further reduce the TDY burden and lower the active duty OPTEMPO, we are working to increase Military Personnel Account man-days so we can expand our use of Air National Guard and Air Force Reserve forces to support active duty missions.

It is important that we continue to enhance our base and community programs, as well. The commissary benefit is vital to the military community. Our people rank this second behind health care as their most valued benefit. The Air Force continues to support funding for Child Development Centers, family day care homes, and youth center programs. In addition, our MWR programs are an essential part of an overall quality of life effort for the Air Force community. They are not just niceties, but key elements in the quality of life equation.

The retirement system has long been a top retention incentive for getting the right people to serve full careers in uniform. It is the centerpiece of the benefit package we use to offset the extraordinary demands and sacrifices associated with military service. Retirees have already and often contributed to deficit reduction through pay caps while on active duty and lower pay raises than those enjoyed by average American workers 14 of the last 20 years. This significantly reduces their lifetime retirement earnings. Recent Cost of Living Allowance (COLA) delays have added to the burden already borne by military retirees. Further reductions in the value of retired pay could have a dramatic, negative impact on retention and readiness. The Air Force supports full and timely COLA increases for military retirees, as well. This is an important part of the total quality of life package.

We are very committed to expanded education opportunities for our enlisted personnel. Education opportunities are the top reason recruits cite for joining the Air Force. Tuition assistance is a valuable recruitment, retention, professional development, and quality of life program. It provides active duty personnel the opportunity for

professional development through tuition assistance for post-secondary education. Our enlisted personnel make extensive use of this program to complete Community College associate degrees, undergraduate degrees, and masters degrees. In addition to tuition assistance the Montgomery GI Bill continues to be a success story for the Air Force and the Nation. We rely on the bill as a critical incentive to recruit and retrain quality people. Nearly 95% of the young men and women entering the Air Force enroll in the program. Furthermore, expanded education programs provide our people with the foundation of skills that allows a smaller force to be a ready force -- one that's capable of fighting and winning America's conflicts.

A few last words about our quality of life efforts. Improvements in quality of life programs will enhance Readiness as we recruit and retain the right people for the best Air Force possible. Through our initiatives to put more money into our troops' pockets, to create better living accommodations, and to improve the overall Air Force community environment, we have sparked a new sense of determination and optimism among America's Best. Air Force people deployed around the world can better concentrate on the mission knowing a support structure exists to help take care of their families.

We are not the same Air Force we were when I began my career. We're smaller, yes-but we are working hard to strike an appropriate balance among readiness, people and force structure that allows us to effectively, and efficiently support our country's national security objectives. We are building today an Air Force that will meet the national security needs of a post-Cold War world and into the 21st century. The decisions we make, the force we provide, the people we attract and retain in our armed services today,

are our nation's security tomorrow. How we man, organize, train, and equip this new smaller Air Force will determine our success in the 21st century. We all owe the airmen of the future, and our predecessors of years gone past, our best judgment, our wisest choices, our fairest deliberations on their behalf.

To prepare to meet these challenges, Secretary Perry has stated, "No single investment we make is more important than an investment in our people." I wholeheartedly agree, and solicit your support to make a significant investment in the quality of life of the men and women of the United States Air Force.

This concludes my prepared statement. Mister Chairman and members, I would be pleased to answer any questions.

Mr. BATEMAN. I thank each and every one of you for your excellent statements. I know I speak for the entire committee when I say that we are very proud of you. I believe that you are an outstanding and distinguished panel of witnesses as distinguished as any that have come before us.

Let me make a few observations. Then I invite any comments any of you may have. It comes as no surprise to me that some of the units in the services who have been most often called upon and deployed and who have been worked perhaps more aggressively than others are presently enjoying what seems to be a very, very high state of morale.

For instance, the 1st Tac Fighter Wing headquartered at Langley Air Force Base. Those people are among the first to go on every deployment that we have had or several of the deployments we have had.

The 7th Transportation Group at Fort Eustis in my district, they are the first to go on everybody's deployment because they are the ones who make things move and see that they keep moving and everyone is supplied.

They are there to receive you when you arrive. They are there to send you back when your deployment is over. Their morale is very, very high. The other day, I have not talked to them, but someone was telling me of the extraordinarily high morale of the 35th Cavalry unit, the 35th Cavalry which is in Macedonia and which has been in about 6 countries in the last 18 months and how very high their morale is. As I said, that does not surprise me because of the quality of people we have and who expect, as you have said, to be tasked. They expect the tasks to be doughty. They take great pride in rising to the occasion and succeeding.

I wonder, however, if we do not have a problem that we can even wear out those people if they are going to be called upon to do it over and over and over again, almost on a regular basis. Even more importantly, as so many of you have emphasized, how long are they going to stay with the program at that intensity of operation if their wives, their children become worn, frustrated, and aggravated with the length and frequency of the family separations that are involved?

Not that all of them did not expect it to occur, but are we at risk, at least over time, of wearing out our people and seeing a major deterioration in morale if we are going to have to call on the most important and most frequently deployed units over and over and over again?

Sergeant Major KIDD. Yes, sir. As a matter of fact, since you brought up the 7th Trans Group, I just recently, here within the past few days, went down to Fort Story and through Fort Eustis, which is where they are located. You are exactly right; tremendous morale.

They are very proud of what they do and how well they do it. They also do happen to have one of the skills that is deployed much more frequently than some other skills. They are experiencing a less than on the average reenlistment. Therefore, I feel, that there are other MOS's like that, the military policemen that we have in the U.S. Army.

The one I just cited, was very proud. He was very capable. However, with those kinds of deployments back-to-back which is what they are running into, they are starting to see a less than—they are not meeting the Army average for reenlisting.

I think you can overdeploy a certain MOS. I do not know what that number is to where it is broken. In some MOS's we are coming close to it.

Mr. BATEMAN. Do any of the others have a comment?

Sergeant Major OVERSTREET. Yes, sir. I would suggest that in the Marine Corps it has been my observation and my opinion it is very difficult to break a young marine because you just cannot drive one too hard. They love it. The harder you drive them, the more they like it.

The only problem is, somewhere along the way they get married. It is very easy to break the family because as in my house, when mama is happy, everybody is happy. A lot of other households are kind of the same way. That goes for the spouse regardless what gender they are.

I think that is where the quality of life agendas that we have on the table right now are probably more important than they ever have been before. Most of those deal with housing. They deal with where the marine lives, where his family lives, how we take care of them in terms of family support and child care and those sorts of things.

We seem to be deploying more in a peacetime operation. With a fourth of them gone, the biggest majority at times, your number is going to come up pretty soon.

Chief HAGAN. Yes, sir. I echo what my colleagues have said. I will tell you, when I visited the CNO in the Caribbean, having been pulled back in the middle of stand down to go standoff Haiti, their morale was as good as you described the cavalry unit.

They were enthusiastic, asking the CNO to ensure that they were the ones that got to go on the beach and not someone who had come along behind them. We are grateful for that morale. It is because we have recruited and trained well. They are well-lead.

Our leadership exerts a tremendous amount of energy. We do have some promises to keep. We must maintain the recruiting standards. I think we can maintain that morale so long as the missions and deployments we send them on are clearly in our national interest, as they have been.

Again, I would repeat, we have some promises to keep. They include fully funding the BQA and housing plans and continuing the efforts to resolve some inequities in the compensation system.

Chief Master Sergeant CAMPANALE. I had the privilege of being with the First Fighter Wing last Thursday, Friday, and Saturday. You are exactly right. The morale is high. They are traditionally among the first to deploy any time our Nation asks them to.

This morale situation I have described as a checkbook. It is a morale checkbook. A long time ago, somebody put a deposit into it, but nobody ever wrote this deposit down. So, nobody knows that the balance is.

Every time we deploy our people, every time we give them a pay raise less than ECI, they fall behind, every time we hear rumblings

about the commissary benefit going away or medical care going away for this and that, you write a check on that account.

Again, you do not know what the balance is. You need to make deposits into this account too. If you withdraw more than you deposit, one of these days one of those checks is going to bounce. You all know what happens when you bounce a check.

If it is a \$10 check it will probably cost you \$40 to get it back. So, it is hard to keep track of that. It is a fleeting thing, morale. It is something that ebbs and flows; something that changes with one issue from 1 year to the next.

From my standpoint now, morale in the U.S. Air Force is pretty high—even with the people that go all of the time, our AWACS people, ABCCC, combat controller, security police. So, it is pretty high now, but it does not take much to change it really quick.

Mr. BATEMAN. The chairman of the Military Personnel Subcommittee, Mr. Dornan.

Mr. DORNAN. Thank you, Mr. Chairman. I am really impressed with your metaphor of a checking account balance. It is an unknown. You never know when the bottom drops out and that is one question that I wish all of you would submit for the record, early warning signs on retention, where your very best people that cost \$400,000 worth of training and experience are checking out.

The following information was received for the record:

The Army monitors mission-essential specialties continuously for adverse retention rates. Routine comparisons, based on historical rates for particular specialties and the Army overall identify soldier attitudes as they develop. Frequent deployments have the potential to impact morale. Spousal satisfaction surveys coupled with availability of family support activities, education opportunities, promotion potential and adequate housing all play a role. Retention is also potentially affected by previous and proposed changes to existing retirement packages. The change to 40 percent of base pay, coupled with recent plans to compute retired pay on the last 12 months average pay, convey a shrinking benefits package to soldiers and their families. Negative reactions to any of these factors have the potential to hinder readiness. Soldiers in technical specialties, particularly those with marketable civilian skills are a constant concern. Selective Reenlistment Bonus (SRB) dollars and enhanced promotion opportunities bolster retention in high skill specialties. These programs are reviewed regularly to assure that the Army's needs are being met.

ADM Flanagan: "Early warning signs on retention" relate directly to some of the fundamental factors that departing, well-trained, naval personnel provide as rationale for leaving military service. These indicators include:

a. A growing pay gap between median military compensation and that of related high technology jobs in the civilian marketplace.

b. Declining unemployment in the economy, which can enhance an individual's confidence in being able to support a family without the turmoil often associated with regular military deployments.

c. Published annual inflation rates which exceed the cost of living adjustments made to military pay schedules.

Specialized technicians in the electronics field, like those trained in the AEGIS program, are examples of where we have not retained "high training cost" personnel at the first and second enlistment points in the numbers we desire. As I stated in a prior question for the record, I believe that inadequate compensation of our sailors and marines, along with the heavy toll that frequent separations takes on the families, are the foremost factors which departing service men and women cite as their reasons for leaving the military profession. No single factor is more critical to enhancing individual or family quality of life than to provide a working wage commensurate with the long hours, hazards and sacrifices faced by our uniformed personnel. And this position is particularly valid of a sailor who has an extremely marketable skill, Navy training credentials, and years of valuable experience.

The Air Force closely monitors the retention patterns of its enlisted force. We have skills that cost over \$100,000 in training, such as pararescue and airborne command and control communication equipment. There seems to be no direct link between high cost of training and retention. There is a link, however, between the

lure of the civilian job market and retention. For example, the medical career fields have a strong civilian job market attractiveness which requires close attention in retention trends. The Air force monitors these retention trends in all skills by tracking first term, second term and career airmen retention rates and trends.

To improve retention and offset the lure of the civilian job market, we pursue a vigorous Selective Reenlistment Bonus (SRB) program. To illustrate, the SRB program has been very successful in retaining skilled personnel in the nuclear medicine career field, garnering a 100% second term reenlistment rate in FY94 and 88% currently in FY95.

Mr. DORNAN. If I could go to the Sergeant Major of the Army Kidd. In your statement, you save us a lot of time up here by the way you have prioritized how your young bachelors and how your married folks feel about issues.

It is really interesting to note the differences, but mainly the similarities. You have this annual conference, Active, Guard, Reserve, your defense civilians, retirees, even family members. The retiree gives you a great perspective.

Then you have this BOSS, better opportunities for single soldiers. If I look at the five priorities of each group, No. 1 is identical—pay. That is something that we are going to track on this committee for the next 2 years, this widening gap with civilian pay.

If you look at the married folks, housing comes up fourth, but it is No. 2 for your single soldiers. Billeting for them and housing for the married folks. Where it is really different is your family people. Look at No. 2, medical care; No. 3, child care; and No. 5, the retiree.

The single soldiers being younger think they are going to live forever. Medical doesn't even show up. They are worried about education and promotions. They do want to get ahead if they stay in and receive equal treatment. Does that equal treatment mean favoritism in the military or does it mean equal treatment to those with families? What does that mean, equal treatment?

Sergeant Major KIDD. The latter, sir. The single soldier is asking to be treated with the same responsibilities, the same freedoms as a married soldier who, once he leaves in the evening goes home, has his privacy and a place to relax and can do certain things in the billets. We are addressing that internally in the Army with what we call single soldier initiatives. That is one of their issues; equality to the married soldier and their freedoms.

Mr. BATEMAN. We are experiencing something brand new, those of us who are in the majority now, not only the responsibility that comes with being in the majority status, but new directives coming out of the White House through the Office of Management and Budget.

I wonder if you would all respond to the question that you heard me ask our four combat commanders because you were all in the room. We will start left to right. Sergeant Kidd, when you submitted your statement to OMB, did you have anything taken out of it? Would it be possible get the original document, if in fact anything was taken out of it? I don't now if it was.

Sergeant Major KIDD. Yes, sir, and yes, sir.

Mr. BATEMAN. I wish I had a crystal ball that I could just like a laser go right to what was taken out of your statement. Did it have anything to do with combat readiness?

Sergeant Major KIDD. What it had to do with, sir, was qualifying some of my anecdotal testimony where I talk in there about visits to or talking to the 7th Trans Group and talking to the other units that have deployed.

In the testimony what I basically said was, this is not through statistics or not through extensive or exhaustive research, but here is what they said. There was a request for some qualification of those kinds of figures. The other part had to do with an insertion of some information about quality of life.

Mr. DORNAN. Did you like Sergeant Campanale's metaphor about morale; that you never know when you are going bankrupt in that area?

Sergeant Major KIDD. Yes, sir. We have testified several times this year. I really do like that.

Mr. DORNAN. Anecdotes can be——

Sergeant Major KIDD. I was going to say, my esteemed colleague here, too, has one with a faucet that he may present to you later on that I think talks about near-term versus the future too.

Mr. DORNAN. Most people tend to know that Napoleon, who died a very young man, 52, gave us, "An Army travels on its stomach." It is almost like that is his most remembered phrase.

However, it was this same very young artillery officer that over his career said, "morale on the battlefield is a factor 3-to-4 over food." So, you can take hungry soldiers, and sailors and airmen, and if their morale is up, hungry marines will fight if their morale is good. I just know that anecdotes can be used to convey something other than the hard truth.

You folks are in your job to go around the world and take anecdotal testimony. Am I correct? To look for early warning signs of lack of readiness. I am asking right now if you would give us.

Sergeant Major KIDD. I just want to do it on morale real quickly because the Sergeant Major stuck his in during his opening remarks, which I thought was great. That is, yes, we can do whatever we are asked to do. During the 36 days, there are probably some things that commanders have to look at.

The morale and the capability I think of all of the Armed Forces right now will get it done for you. They are doing it now. The key to that is quality to keep that morale.

Mr. DORNAN. That is all I had in this first round. If we could go down the line, Mr. Chairman, on whether or not their statements were censored at all or abridged.

Sergeant Major OVERSTREET. My statement was not censored, sir, nor was it abbreviated. The Commandant kind of gives me a blank check. He gives me one guidance. He says, Sergeant Major, go over there and tell the truth and you do not have to worry about what you say.

Chief HAGAN. My boss, Admiral Boorda, tells me the same thing. I have no such censorship. There was no OMB comment on my testimony. I would note that on a previous occasion when there was extensive editing of my testimony that I disregarded it; felt free to do so and submitted my original testimony.

Mr. DORNAN. Thank you, Master Chief.

Chief CAMPANALE. Ditto for me too. As a matter of fact, I have my original one that I did first. Then I did it the second night.

Then there are a couple of happy to glads here made by some folks; changed one year from 1989 to 1988; put the word "raise" in between pay and gap and said, no, we are done in Rwanda now, Chief. That is about it.

My boss, too, gives me an open checkbook. He says, you go tell it like it is. Any time anyone tells me this is the politically correct thing to say, I say, thank you very much and note that. I say what I think is the best thing on behalf of the airmen of the U.S. Air Force.

Mr. BATEMAN. Well said, all of you. The gentleman from Virginia, Mr. Pickett, the ranking member of the Personnel Subcommittee.

Mr. PICKETT. Thank you, Mr. Chairman. I just cannot wait to hear from Sergeant Major Overstreet about the faucet.

Mr. BATEMAN. Yes, we look forward to hearing about the faucet.

Sergeant Major OVERSTREET. Are you ready to hear about that now, sir.

Mr. PICKETT. I want to hear about the faucet.

Sergeant Major OVERSTREET. I would have brought a chart over here sir, but we testified last week. The chairman of the committee was so impressed with it, he called me the next day and he said, I want that chart. He said, can I borrow that? I said, absolutely, sir. I guess there were some military leaders coming in the next day and either he threatened them with it or showed it to them. I am not sure how he utilized that.

However, the chart basically looked like this, sir. There was a tank. This tank is our future. This is where we are going. At the top of this tank there is a faucet up here and there is a drop of money dripping out. This is 1999, 1998, 1997, and 1996.

On this as well for us, there is an MB-22, radio and AAV and all of the modernization that we are looking at in the out years. The only problem is, there is a faucet at the bottom of the tank and it is draining into 1995. We are trying to live today at the expense of our future.

As a matter of fact, we are sacrificing our future at readiness today. Just as I said earlier, we can go today. We can do all of the things that you need and want us to do today. We suggest that we can do that.

As far as capabilities, I would suggest to you we probably do not have the capabilities, certainly in the Marine Corps, because when you take 26 percent of the fixed-wing assets and 30 percent of my artillery tubes and 50 percent of my tanks out, that is muscle. That is right out of the operating forces.

I do not know if I thought that we could do without that amount of combat power. However, as I heard someone suggest earlier, they said, where are you today compared to 1970 or compared to years back?

Well, I would think when we went across the beach there in Iwo, we had a rifle that would shoot 60 rounds a minute. Today, we shoot 600 rounds a minute. We had a tank killer that could shoot 200 yards. Today, we shoot 3,750 meters and can actually put steel on target.

Our tank range was 1,000 yards. Today the range finder on an A-1, M-1 main battle tank is 9,990 meters. So, you can see our

bursting radius has gotten much larger. We need the present quality of folks to continue operating and employing those sophisticated systems.

Mr. PICKETT. Thank you very much. I appreciate your response.

Mr. BATEMAN. I think you have both done well, Mr. Pickett.

Mr. PICKETT. Thank you, Mr. Chairman.

Mr. BATEMAN. The gentleman from Missouri, Mr. Skelton.

Mr. SKELTON. Thank you so much, Mr. Chairman. I appreciate each of you testifying as you have and the excellent career that all of you have given and continue to give for our country. You are the best and we appreciate it.

You said something, Sergeant Major Overstreet, awhile ago. It reminds me of a sign I have seen in a young sailor's kitchen. It has a beautiful wife, a nice family. The sign says, "If mama ain't happy, ain't nobody happy."

I think that sums up the challenge of our military today. The morale is high. The uncertainty is high. They do not necessarily go hand-in-hand. I have spent a fair amount of time in recent months talking with so many young folks here and also in Europe.

I am very, very impressed with the quality of folks that we have seen. I would like to ask each of you, because time away from home seems to be the crux of family problems. Young folks do get married. Young folks do have families. Keeping that sailor's sign in mind, if mama ain't happy, ain't nobody happy, I am not speaking just of young men. We also have young ladies, young women with families and the reverse, of course, is true.

Let's compare, and it may be difficult, particularly in the Army because of the different and separate MOS's of which you spoke. Give me your best judgment on the average, if there is an average, young person in your military.

Compare the time away from home as best you can through the year. We will start with you, Sergeant Major Kidd.

Sergeant Major KIDD. The best figure I can give you is one that was worked out based on, I think it was, three divisions. It was kind of a combination of a high TEMPO and medium TEMPO and so forth. It came out to 138 days, if I understand what you are asking.

We are now in the process of developing, from what I understand, DOD across the board, a system of actually figuring PERSTEMPO. It is going to be broken into DEPTempo and Skill TEMPO. That just started. You are exactly right. In our service, we did not figure those things into training.

For instance, if they are going to the National Training Center, we considered that training. Even though they were away from home, out of their bunk, that is a part of the business. What we started using was deployments down to Haiti, Guantanamo, et cetera. We had to come up with a common formula. Right now, it is 138 days.

Sergeant Major OVERSTREET. I am not sure what the number of days is, sir. As I suggested awhile ago, just about a fourth of the operating forces is deployed on any given day. We just brought two battalions back and one squadron back. We still have better than 23 percent of the operating force deployed.

As the sergeant major suggested, sir, those are 6 months away from home at a minimum. Not long go I had the great honor and privilege of being the regimental sergeant major of the 6th Marine Regiment down in Camp Lejeune.

As such, I was in the regiment. Regiments do not deploy unless you have a major contingency. Out of the 2 years that I was a regimental sergeant major, I spent less than 10 months at Camp Lejeune simply because we were gone someplace training all of the time.

You got Bridgeport. You got—Meadows. You got the desert. You got the mountain. You got cold weather. You got all of these other deployments. You got Vegas and Rigi Rhodes and all of these other places that you are going to, just to get ready to put up these battalions and squadrons that we have. We do not even count that time.

The time that I spent deployed is nothing. So, these battalions that you see shooting, moving, and communicating most of the time, unless they are actually on a designated deployment, we do not even count that time. Often times, the green water workup, the field training and all the rest, are almost as long as the regular deployment.

Mr. SKELTON. Master Chief Hagan.

Chief HAGAN. Yes, sir. As you know, the Navy is sea-intensive. Deployment is our stock in trade. I will just give you some figures here; 60 percent of the force is on sea duty. Most of that is ship-deploying sea duty, deploying squadrons.

The tours range from 60 months. We have a cutoff at 60 months. When you roll ashore in the most sea-intensive rating—Admiral Flanagan referred to the difficulty we have in putting them in their rating ashore—they serve 24 months ashore.

The best sea-shore rotation is 36 and 36 when you are at a 2-to-1 turn around ratio. If you pick up a ship—how much you are gone really depends upon the luck of the draw and when you report.

If you report at the beginning of a deployment, you could make three deployments in a 42-month sea tour. You could make three and one-half full deployments. Again, the deployment time seems to pass quickly. There is the adventure of hopefully liberty ports. The inter-deployment cycle is the challenge.

When I went down to Port-Au-Prince with the CNO a few months ago, we went on board *America* and *Eisenhower*. Both of those were in their inter-deployment cycles working up to deploy. They had their decks clear. Put the Army aircraft on there. Went down. They were quite proud of doing a unique mission and doing it well.

It played havoc with the PERSTEMPO, the time away from home. The *Juno* that just left a year or so ago was going out to RIMPAC and was diverted to be the mother ship for the mine sweep, 4½ months when they expected to be gone 4½ weeks; stayed in her deployment cycle.

To have taken her out of the deployment cycle would have been to affect every LSD who was deploying downstream. So rather than give you a cut and dried answer, I can tell you it varies. It depends.

The worst cases, anecdotal all, are really quite terribly strenuous, especially if you decommission a ship that has just returned from a deployment. That sailor gets reassigned to a ship that is just going on deployment. That is happening with some frequency.

We try to avoid that. We listen to the sailors appeal of that. I will stand on my earlier statement that is in my written testimony. We are right on the edge of what can be sustained indefinitely without impact.

Chief CAMPANALE. Sir, we do not keep any exact statistics across the entire spectrum. I looked this up this morning; today we had 9,967 Air Force people deployed. Since 1988, we have seen a personnel reduction of 34 percent. Over that same period of time, we have seen our deployments increase four-fold.

We do keep statistics on our flying, weapons systems, and our flying crew members. As of this day, 13 of those 21 weapons systems exceed the 120-day standard for deployment TDY that we have established for them.

Chief HAGAN. Mr. Skelton, I got so carried away. I wanted to brag on some things. Tab B, I would like to just highlight that Tab B illustrates the best case when the system works and the inter-deployment cycle adheres to the OPNAV instruction for OPTEMPO; it will show you that a sea-intensive rating, the 5-and-2 rating that we worry so much about, spends 60 percent of the time away from home.

That includes the one in four duty section when the ship is in home port. That is a more quantifiable answer to your question, sir.

Mr. BATEMAN. The gentleman from Maryland, Mr. Bartlett.

Mr. BARTLETT. Thank you very much. I had the great privilege of spending 18 years of my life in association with the military in a variety of different capacities. The first of those was as a physiologist at the School of Aviation Medicine, Pensacola, FL. I learned there very quickly that it was the chiefs that made things happen.

The officers all admitted that. As I continued those 18 years and associated with the other military services, I learned that the same thing was equally true there. So, your testimony is really more meaningful to me, perhaps—well, it is more meaningful to me than the testimony of those who are at the highest level.

You are where the rubber hits the road and where it happens. You have been delightfully forthright in your testimony here. General Jones mentioned that there were subsidized meals at school for some of our military families and food stamps. Is this widespread?

Sergeant Major KIDD. The food stamps, subsidized meals, all of the Armed Forces have those situations; personnel in all the service are affected by those situations. I have heard several different numbers.

Initially, we presented some numbers that were rather extensive. Then they came back later and said that we did not count all of their compensation and so forth. I am here to tell you that there are a sufficient number of service people affected by it.

Then when they deploy or train and have to worry about their family having that kind of—being fed and taken care of or having the capability to be taken care of, it affects their ability to train

and certainly their ability, once they deploy, to fight. We do not want anything that will take their mind away from training and war fighting when they have to go.

Mr. BATEMAN. Would the gentleman permit me to ask some questions along that same line?

Mr. BARTLETT. Yes, sir.

Mr. BATEMAN. In a discussion in my office some weeks ago, this matter of our military personnel being on food stamps and public assistance programs was something that was discussed. The Under Secretary was obviously concerned about it. I am very concerned about it. I think everyone on this committee is very concerned about it.

We want those numbers to go down. We want them to go away. Let me ask the question in this direction. Is the very fact that any person in our military is on food stamps a morale factor beyond those who are actually receiving the food stamps?

Sergeant Major KIDD. I would like to say it this way. The numbers of personnel on food stamps could probably never be captured because half of the people that are eligible will not use them because we teach pride, self-reliance, and so forth. So they would not use them.

Has it affected the soldiers' morale, I have to be honest and say I really have not seen the young soldier where he is stopping; as my colleague here, my fellow grunt said, it has not slowed the soldier down. It does affect the family. I think it probably has more of an affect on somebody like me——

Mr. BATEMAN. That is my point.

Sergeant Major KIDD. I hate to see my soldiers have to use those kinds of things; we are taking them, they are defending the Nation, and they are putting their life in harm's way.

Mr. BATEMAN. I do not want to make speeches from up here. We are here to hear you. It affects the "bejepers" out of my morale that this happens. It would seem almost a commonsense proposition, if I know anything about people and how people react.

Everyone of you at that table, and certainly all of those you are associated with who have pride in their service have to have some questions. Is the Congress or the American people really fully behind us and does it appreciate us if we have got people in our ranks who are on food stamps?

Sergeant Major OVERSTREET. It really kind of tears at the heart and soul of what you are trying to teach. As the sergeant major alluded to already, sir, we have tried to get our hands around this several times. It has been most difficult because if you do instill a little pride and discipline, if they have to go on food stamps, they are not going to tell you.

Oftentimes, when a young marine deploys, his wife goes and applies for the food stamps and she gets the food stamps and the marine doesn't even know about it. That is how much pride is within the family. This is not a great problem, but at one time we even had young marines and sailors living across the border down at San Diego simply because they could not find a place to live on the U.S. side. It was cheaper to live across the border.

Oftentimes, we think that we are to blame. We think that we are the ones who forced them to do that. We do not want them to do

that. We want to keep them in a good, safe, clean community. That is very difficult to do on what they make. It is just like the food stamps or anything else.

There are several different kinds of social programs out there. Food stamps is not the only one. There is WIC's and there are other things. We have found that there are more on WIC's than anything else.

Chief HAGAN. Let me emphasize what the sergeant major said is true in my belief. We cannot capture it. I, in fact, am doing my best because we are committed to answer this question for the record from our recent testimony before a HAC subcommittee.

I think that there is good news. The time that the sergeant major referred to when sailors could not find housing in San Diego has abated. It is a tough place for a young married sailor to survive, depending upon their family size. Food stamps appears to be a factor of a very junior individual, a very large family, or a situation we would like to avoid—a situation related to maturity and planning and choices.

I think the good news is that as long as we can maintain the upward mobility that gets you out of the entry level of our force quickly, then you are out of the food stamp window unless you have an extraordinarily large family around eight children.

I would just like to emphasize that we do need the 0.5-percent decrement on the ECI removed. We need the VHA rate protection, a VHA floor, and we need CONUS COLA to be continuously evaluated to find out what is the right threshold. Then this will be nothing more than a minor situation in the Armed Forces of the future.

Chief CAMPANALE. I agree. It is hard to keep statistics. We have not been able to do that. I will tell you that last year Air Force redeemed almost \$25 million in food stamps in commissaries. Our people overseas cannot get them. So, that would be another group of people that could be eligible.

Many people, quite frankly, go off base because they do not want to let anyone see them doing it. It hurts my morale quite honestly. I do not think morale is the right word. I think self-esteem is the right word.

What person who would sign and take an oath to defend their country against all enemies, foreign and domestic, would feel proud about the fact that they have to turn in food stamps to make ends meet?

I will tell you an interesting story. When I was on my hardship tour in Hickam Air Force Base Hawaii, my daughter was 1 of 30 in a class. I was blessed by the fact that my wife had a good-paying job. Jennifer had a problem. The teacher wrote a note saying that she was the only person in the class who did not get this green little ticket every day. Jennifer did not understand why. She thought she was being picked on.

I finally went to school and asked what the deal was. The teacher said, oh, Jennifer does not get one because that is a subsistence for the day for free meals for all of the military kids. Jennifer just does not qualify because you and Barbara make a little more money above the limit; 29 out of 30 in that case did qualify then, back in 1978.

I made a little deal with the teacher. I passed on an envelope with the money so Jennifer could get a green little pass just like all of the other kids. It worked out.

I do not know the exact numbers of children on subsistence. If you would desire that, I am sure we could provide that to the committee.

Mr. BATEMAN. It would be very helpful to have as accurate a data on this area of inquiry as you can possibly furnish.

The following information was received for the record:

SEPTEMBER 20, 1995.

NOTE.—The Department of the Army did not provide the requested information.

DEPARTMENT OF THE NAVY,
OFFICE OF LEGISLATIVE AFFAIRS,
June 13, 1995.

In response to the attached inquiry from the 7 Mar transcript, the Navy has no direct information on the number of children on subsistence (i.e., WIC and Food Stamps). The best we can provide is the number of enlisted members who would qualify for such aid (1,977). You could then estimate the number of family members (but not necessarily children because we can't break out children from adults) eligible to receive such assistance. Hope this is at least somewhat helpful.

Sincerely,

CDR DAVID P. PRICE.

Question: What percent of the enlisted force would qualify for federal subsidies, such as WIC, Food Stamps, the School Lunch Program, etc., as based on their annual income?

Answer: In order to answer this question, we need to assemble some statistics. For simplicity the following chart is compiled:

<u>HOUSEHOLD SIZE</u>	<u>FOOD STAMP/FREE LUNCH GROSS INCOME LIMITS</u>	<u>WIC/REDUCED PRICE LUNCH GROSS INCOME LIMITS</u>
1	\$ 798/MO.	\$ 1135/MO.
2	1066	1517
3	1335	1900
4	1604	2282
5	1873	2667
6	2141	3047
7	2410	3429
8	2678	3811
Additional members (add)+269		+383

For each of these programs, there are guidelines that determine eligibility. Generally, in-kind benefits are not added to gross income in any program for those members who live on-base.

The Food Stamp Program incorporates many variables into the calculation for qualification. Members must pass a Gross Income as well as a Net Income test. Some of the variables that must be calculated are: households may have \$2,000 in countable resources, vehicles with a fair market value of less than \$4,550, excess shelter costs (above and beyond normal heating, water, phone and rent costs), medical expenses greater than \$35/month if not covered by insurance, dependent care deduction, etc.

Tab (A) shows that 1,977 enlisted members would qualify for the Food Stamp program based on gross income and family size. This translates to 0.51 percent of the current enlisted population. For the purpose of simplicity, the following assumptions were made in the compilation of this data:

- (1) DMDC data was provided from the DEERS database
- (2) Off-base housing was used which would provide the largest possible number of candidates.
- (3) Food stamp net income figures were not calculated. This would lower the number of eligible candidates. Some members could pass the gross income test based on assumption (1), but they may not pass the net income test.

There is no way of knowing the actual number of Navy members that are receiving food stamps. Defense Commissary Agency reports that \$4.6 million in food stamps and \$2.8 million in WIC coupons were redeemed at Navy Commissaries during FY-94. There is no quantifiable way to determine whether the users were Navy, retirees, or members of other services.

Navy Enlisted Personnel Possible Food Stamp Eligibility
Fiscal Year 1995

	Base Pay	BAG	VHA*	BAS	Monthly Salary	Food Stamp G.I. Ceiling **	Household Size	# of Family Members	Navy Total ***
E-1 (4 nos+)	854.40	323.50	95.37	209.40	1487.67	1604.00	4	3+	65
E-2 (1< 2)	957.60	323.50	104.86	209.40	1600.35	1672.00	5	4+	60
E-3 (4-)	1134.60	345.00	111.65	209.40	1800.65	1672.00	5	4+	473
E-4 (4-)	1272.00	370.80	122.89	209.40	1975.09	2141.00	6	5+	529
E-5 (6+)	1437.30	426.30	140.14	209.40	2113.14	2410.00	7	6+	572
E-6 (8+)	1641.60	474.30	156.81	209.40	2462.11	2678.00	8	7+	278
Grand Total @									1977

* Medium VHA based on national median housing cost figures

** Effective 01 OCT 1994

*** Data provided by DMDC Monterey (DEERS database)

@ Grand total denotes number of service members possibly eligible for food stamps

389,816 total enlisted as per NPU of 26 PEE 55

1977 Enlisted of a total of 389,816 (0.5%) qualify for Food Stamps

Enclosure (1)

SUBSISTENCE

Applying for and using subsistence programs is a very private activity. We do not maintain information pertaining to the number of military families with children receiving food stamps. We estimate less than 1 percent (approximately 2,050) of active duty AF members may be eligible for food stamps today.

Though the Defense Commissary Agency redeemed \$25.2M in food stamps in FY94, these redemptions were made to members of all eligible categories of commissary patrons, including active duty military families, retirees, disabled vets, reservists, and widows. A recent OSD study concluded less than one percent of all military households would be eligible for the program.

Mr. BATEMAN. I am going to ask the committee to indulge me in letting me give Mr. Bartlett some more time since I used up more of his time than he did.

Mr. BARTLETT. You asked the question that I was going to ask. I cannot help but believe that—

Mr. BATEMAN. In that case, I had better take the time back.

Mr. BARTLETT. If you are having good morale in spite of this problem, then you are doing one heck of a job in the other areas of morale.

To the extent that our young families in the military are getting subsistence, the taxpayer is still paying for it. The thing you mentioned about dignity, self-respect and so forth, wouldn't it be just a heck of a lot better if this was a part of their remuneration, their pay for what they are doing for us, rather than their getting it as subsistence?

I just think that we are paying for it anyway. There has to be some way that we can send the message to these kids that we really do appreciate what they do. We appreciate it enough that we are going to pay them enough so they can live without going to get food stamps.

If you had, another question on a different subject, and we really do need to do something about this: if you had more money, would you spend it on O&M or quality of life?

Sergeant Major KIDD. If I had more money, would I spend it on O&M or quality of life?

Mr. BARTLETT. Yes, sir.

Sergeant Major KIDD. Based on what I understand about O&M it can affect quality of life. Quality of life is where I live, to be perfectly honest.

Mr. BARTLETT. But you have shortfalls in both of those? You have a tough time making a decision as to where you would spend it?

Sergeant Major KIDD. One of the first things I want to do is make sure that the soldiers have the ability to be power projected, to do whatever the mission is and do it effectively and safely and have the best opportunity to come back.

So, I want to put money into whatever that takes; into training; into equipment. Another one of the reasons we were so successful in Desert Storm was because we had great equipment, maintained, and quality soldiers behind it. I am concerned about quality of life. Really, that is where I come from. God, I do not want to send them off without equipment that works and without the best technology that we can provide.

Mr. BARTLETT. All of you feel the same way—that it is tough to make a decision between O&M and quality of life. How would you

trade that off against modernization which is another need that you all and the officers before you have emphasized?

One of you used the statement a couple of times that we are on the edge. Is that a general consensus that in terms of our readiness you are ready now, but you cannot speak for the future?

Sergeant Major OVERSTREET. I do not think you can equate that to 5 years down the road if we keep draining our modernization and draining our future. I think all of those things that are coming into that upper tank I described there, I think we have to build on that because that is our future. That is investing in our future.

I would suggest to you, sir, in the O&M and/or quality of life, I see the Commandant of the Marine Corps almost on a daily basis taking money out of O&M to support quality of life. He, too, thinks that is very important.

However, there is a balance that has to be struck there. As the sergeant major alluded to, bringing them home alive is the No. 1 quality of life. That is the first and foremost thing that we can do; just whether it be retrograding out of Somalia or whether it be going across the beach or some other place, we want to get across there with all of them. We want to bring them all back alive.

That takes modernization. That takes training. That takes O&M funds. If they do not have any quality of life to come home to, I mean, that affects morale as well.

Mr. BARTLETT. Thank you. Mr. Chairman, I have just one last question. Bob is still here. He asked Admiral Flanagan if he would provide for the record comments from the wives of our servicemen who were deployed with women. I am not sure, Bob, that you understood the question that the Admiral asked. Could he include the husbands? You interpreted a little differently.

I think he was interested in the husbands of the women that were deployed.

Mr. DORNAN. Would the gentleman yield?

Mr. BARTLETT. Yes.

Mr. DORNAN. I did misinterpret that. I thought he meant he, himself, and all of the husbands of the wives to get their opinion in. He meant when we are sending young wives over, what do the husbands think?

Chief HAGAN. Yes, sir.

Mr. BARTLETT. So my request would be could you supply, Mr. Hagan, for the record some comments of the wives of your young men and the husbands of your young women have made about this joint deployment?

The following information was received for the record:

HOUSE NATIONAL SECURITY COMMITTEE
JOINT SUBCOMMITTEE ON MILITARY READINESS
AND SUBCOMMITTEE ON MILITARY PERSONNEL
HEARING ON: READINESS AND PERSONNEL ISSUES
RELATED TO HIGH PACE OF OPERATIONS

7 MARCH 1995

INSERT FOR THE RECORD

PAGE ____ LINE 2036

ADM Flanagan: Fifty-one spouses of crewmembers from the nuclear-powered aircraft carrier USS DWIGHT D. EISENHOWER (CVN 69) and combat support ship USS DETROIT (AOE 4) responded to an informal post-deployment survey which requested their opinions on a recently completed 6-month, mixed-gender deployment to the Mediterranean Sea. In summary, sixty-five percent of the participants in the survey favorably endorsed the initiative (supporting the deployment), and thirty-five percent were not supportive. A sampling of their reactions follows:

"I don't have a problem with it. I don't see anything wrong with it. If anything, I'm proud of women for making it so far, in general."

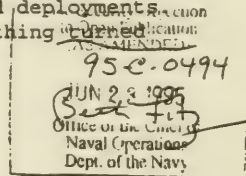
"I guess it's good. It has bad points though, like some women don't care about the men being married. And when you get those men and women together, problems are caused."

"I think it's great. It gives them a chance to see what real sea duty is like, visit places, work in their rate, and help them out as far as promotion goes. It also frees up some billets for men not to be assigned to sea duty for so long."

"Not thrilled over it."

"I don't have a problem with it at all."

"I think it makes it stressful for everyone in long deployments. I think they should do segregated deployments. But they made it out there pretty good. Everything out well."



"If they are able to do the job, then I say, 'Go for it'! As far as the infidelity which may occur, that happens just as much as in civilian workplaces. People just make a bigger deal about it, because it is military. You don't hear in the news every time officials of Xerox or Kodak or IBM are having affairs. That happens everywhere. I do believe it could be more common on the ship than in the workplace, due to the fact that the sailors actually live together for six months. Once again, though, if the women can do the job, then fine."

"I don't worry about it."

"I don't think it's appropriate. If they want to get an all woman ship and have the Commanding Officer and whole crew as women, I think that's fine. But I don't think it's appropriate to mix gender in a situation like this."

"Good. Men and women have to learn to work together."

"I like it. It's good."

"I don't think it's a good idea. I think it causes problems. From what I understand, a lot of people were getting together, and I think that's dangerous in the workplace. It's only normal for people to get together, but I think women can do the job."

"I trust my husband. No problem."

"I don't agree with it at all. I totally, totally disagree. I don't think women belong on combat vessels. My reasons are not because of the sexual problems that may have occurred, but just the nature of the vessels they are on is not conducive to a woman's lifestyle."

"It's a good opportunity."

"I don't think men and women should serve on board together."

"There might be some problems over the long term."

"Basically, as long as they can do the job, then I don't have a problem with it. I know with my husband being a firefighter, if he has to watch out for himself and somebody else, because they don't know how to do their job, then that's not good. I feel the same way about the people in the Air Department. If they're up there (on the flight deck), they've got to be watching out for themselves, not somebody else...not baby-sitting somebody else. Basically, that's about it, as long as they can do the job...other than when they cry sexual harassment every time you turn around. If somebody looks at them funny, they can scream sexual harassment. And they'll be believed before the other person."

"It's a good idea."

Chief HAGAN. Mr. Bartlett, I will do anything you ask me to, but I would prefer to answer that question, to answer the situation you posed a little differently.

I think it is the least important of any list I would make. We in the Navy are challenged by the mixed gendering of ships. The challenges I believe are four in number and beyond that, I believe they really are not important.

It challenges our distribution system and our personnel assignment system. We have a fenced number of racks on every ship. We have got to have a sailor that, that particular ship needs in that rack. The female berthing has to be full. Therefore, we have to assess the right number, train the right number. It is another dimension to training and distribution.

Pregnancy, really is an issue. It is an issue with men and women. It is an issue that has a readiness component. The only thing you can debate is the scope of it. Fraternization and the prevention of sexual harassment are No. 3 and No. 4.

Quite honestly, what husbands and wives think about—if we can address those issues correctly and grapple with what the strength difference between men and women really means, and for the Navy it is not significant in many instances, I do not have any concern over what husbands and wives think because those are issues for our ombudsmen and our command master chiefs.

I do not mean to be flip at all. I will provide you anything you ask from any cross section.

Mr. BARTLETT. Your major concerns are the others that you mentioned.

Chief HAGAN. Excuse me?

Mr. BARTLETT. Your major concerns are the others that you mentioned.

Chief HAGAN. They are challenges that we are grappling with. I think I am right in the middle of every one of them. The CNO hears me out as do the other leaders. I believe that we will prevail. We had 64 mixed gender ships when I took this job. They were AE's in the Persian Gulf. I consider an AE in a mine field proximity to be a surface combatant. There are challenges. Anybody that says there are not is looking the other way.

I do not put on the list of major issues what husbands and wives think about the mixed gendering of ships. It falls in those other four categories, sir.

Mr. BARTLETT. Sir, is the juice worth the squeezing here?

Chief HAGAN. That is an interesting way to put it, sir. I will tell you how I operate, sir. If I were the command master chief on my last ship, the *Philippine Sea*, a great and mighty Aegis cruiser, here are the sailors you get; 45 of them are women, I would figure out where to berth them and make it work.

Does it present us with challenges? I do not mean to be politically correct. As a matter of fact, I am the least politically correct person in every room where we discuss this issue; particularly several of the more emotional ones. We will operate those warships with the sailors that we are required to by public law. Occasionally, we will have some issues to be ironed out.

Mr. BARTLETT. That was kind of an indirect answer, but I think I know where you stand. Thank you very much. Thank you, Mr. Chairman.

Mr. BATEMAN. OK, Mr. Tejeda. Thank you for your patience.

Mr. TEJEDA. Thank you very much, Mr. Chairman. I appreciate the panel's testimony and certainly your service to our Nation to your services. It was always drilled into me when I spent some time in the corps that the NCO was the backbone of the corps. I imagine that is true for the other services also.

One of the things that I always saw at every barracks, quonset hut or even out in the field, there were always signs saying the more you sweat in peacetime, the less you bleed in war.

We heard General Jones testify a while ago that with some weapons they are down from 2,000 rounds to maybe 500 rounds; a reduction of 75 percent. Those who order the rounds for the training for that year, for that fiscal year, certainly know about it. Is that filtering down to the troops? Is that being felt there? What impact is it having? Sergeant Major Kidd.

Sergeant Major KIDD. I cannot give you the exact numbers and the amounts and so forth. Yes, sir, if there is a reduction in opportunities to fire live rounds, to get out and use your weapons system, if there is any degradation at all, soldiers are affected by that.

I say that because the soldiers we have today came in the Army for adventure, challenge, direction, and training. They want to get out and do those things. Plus, we are daily telling them that you need to pay attention in training because you will fight the way you train.

They are listening to us. If there is any degradation or any inability to use their equipment, to go down range with it and so forth, it upsets them. Other than the amount of money that was taken out to take care of contingencies and so forth in certain units that affected them in small arms kind of ammunition, I have not seen that big an affect.

Sergeant Major OVERSTREET. We certainly had to be frugal about the way we spend money for ammunition or for anything else for that matter. I wouldn't suggest a lot of them, but in some cases, they have been changed with electronics.

In other words, we have simulators now that can—you get the same feel. You get the same results. It is a mechanical function, but you really do not send a round down range. You send a light beam or some other signal down range and it tells you whether you hit the target or whether you did not hit the target.

But there are no two ways about it, shooting is a perishable skill. If you do not shoot, you are not going to hit the target. The more you shoot, the more efficient you are in hitting the target. That goes with any shooting skill.

Chief HAGAN. Sir, the equivalent in the Navy are the steaming hours and the flying hours. They are incredibly important. I go to fewer ships now that the submarine force has a little different OPTEMPO as we have some submarines lined up to be defueled and deactivated.

They have to be completely crude during that time. Those sailors who are not getting any operating hours are asking for them. They

want to be underway. They want to be doing the dive in the boat, and doing the things that keep them feeling professional.

I shudder every time I think about the fuel shortages and the flying hour issues of the 1970's when I was a young chief petty officer. Even though I did not realize the impact, I still remember the discussion in the wardroom.

Chief CAMPANALE. Many of our ground combatant people do not have the opportunity to live fire as much as they would like. We have been fortunate to come up with some new state-of-the-art equipment technology. We have a system now that we use called FATS. It is a fire arm training system.

It provides a lot of real life scenarios as well. It is not just target shooting. It is terrorist actions; a multitude of things. As a matter of fact, if you ever get the chance to go to the Air Force base, ask the security police about the FATS system and get out there and test your skills. It is really great.

Again, there is no substitute for live fire. Our flyers do the same things. They do not have enough fuel and enough flying hours to maintain proficiency. They do a lot of simulator work to augment that. Again, there is no substitute for the real thing. I think it is a combination of using both to produce the best possible results. Right now, there is a shortage of opportunities to do live fire.

Sergeant Major OVERSTREET. As a matter of fact, they have changed some of those systems, sir. When I said we had to get frugal about the way we do business, what we tried to do was put the emphasis on where we really needed the shooters as in the trigger pullers.

For example, you probably recollect when you were in the corps everybody went to the range. Then for awhile, master sergeant and first sergeants didn't go to the range. Now we are getting down to the point where gunnies don't go to the range because a gunny has 15 years in the Marine Corps. If you had not taught him how to shoot by now, you probably are never going to do that. Actually, you need to put that money in ammunition and training down there where the trigger pullers are.

Mr. TEJEDA. Mr. Chairman, if I may, just one more question. If they could in 25 words or less answer this. During my time in the corps I remember the drill instructor drilling it into us, saying that there were no brown marines, no black marines, no white marines, no red marines, no pink marines in the corps. They were all green marines and if we did not act as one team and work together we would all die together.

There have been some instances in the press, both in the electronic and the printed media, about some discrimination or discriminatory policies on some bases or perhaps in some instances in OCS. Let me just ask you very briefly and we can go down the line.

What is the state of race or ethnic relations today in the Army, Marine Corps, Navy, and Air Force?

Sergeant Major KIDD. It is clearly understood that no one will be discriminated against. If it is discovered, it will be eliminated. We are the best equal opportunity employer there is.

Sergeant Major OVERSTREET. I certainly echo what the Sergeant Major said. I would suggest, too, in my tenure in the Marine Corps, this is its best that I have ever seen it. I am not suggesting we are

there yet, but you have to look at where we get our product from. We get the product from middle town America.

Sometimes they do not come into this outfit with the same opinion that we have. We have to kind of groom them and stroke them along the way. Once we convince them that there's a better way to build a mousetrap, they buy into it wholeheartedly.

Chief HAGAN. The Navy, in my opinion, as the sergeant major described the Army, and also the sergeant major of the Marine Corps, has the best equal opportunity. What we do that is good for minorities is we have a number of programs that were truly generated to be good for minorities.

They all pass one test, sir. They are good for everybody. All the people can take advantage of those programs. We are well-lead. Our grievance procedure is, if not infallible, as close as I think one can be. I am proud of our equal opportunity, our upward mobility, and in every way it can be examined.

I would suggest that many of the instances in the press are only showing one side of the story. It is very difficult to get the other side of that same story told. Thank you, sir.

Chief CAMPANALE. Not much more I can add to all of that. I agree 100 percent. I just know in the U.S. Air Force, and I am sure it is in the other services, any violators are dealt with harshly. We do not take that lightly. I am proud of our programs and what we do. I think proportionately speaking, the Armed Forces does a tremendous job in both of those areas.

Mr. TEJEDA. Thank you very much. Thank you very much, Mr. Chairman.

Mr. BATEMAN. The committee is delighted at the answers it has just heard. The gentleman from Kentucky, Mr. Ward.

Mr. WARD. Thank you gentlemen for coming and staying so long. I want to point out that I think when I look around the room, those who are here now have been here longer with you than we were with the generals by gosh. I think that reflects our commitment to what we have been talking about today.

I do not have a question. I think we have covered it. I do want to say that I noticed that Master Chief Hagan served some time in Louisville. To have a panel and find out that the witness from the Navy spent time in Louisville is surprising.

I am glad to see that you were able to be in my district and in our community.

Chief HAGAN. Three happy years on Southside Drive, sir. I have to tell you, I must share with you to be truthful. I lived in Indiana, sir.

Mr. WARD. Well, that's fine. Congressman Hamilton will be glad to hear that, I am sure.

Chief HAGAN. At the Army ammunition plant.

Sergeant Major KIDD. I was going to say, sir, I am surprised that you recognize the Navy because he lived there. The Army was born there; Morehead, KY, sir.

Mr. BATEMAN. Well, we have completed a round of questioning. Let me ask the panel as to your continued availability. Do any of you have things that you need to be excused for?

If you are available, then I will turn to the chairman of the Personnel Subcommittee, Mr. Dornan.

Mr. DORNAN. I think we can wrap this up with a very tough question. As I told the generals, let's go through a mine field. As you answer me, see if you can comment on the first two words of a policy called don't ask, don't tell, don't pursue. I never saw any pursuing; never found a witch hunt.

A distinguished former chairman of the Armed Services Committee on the Senate side opened up an excellent report that a former chairman on this side who is with us, Mr. Skelton; and I, as one of the people in the House who is tracking this issue, found no problem with.

That opening line in Senator Nunn's statement was that "homosexuality is incompatible with military service." How is the current policy working? We will go this time from right to left. How is the policy working?

Do you think it would work better in those early months in the service if we went back to the policy of simply informing a young person who wants to join by reading Senator Nunn's statement that homosexuality is not compatible with military service.

Therefore, if you have any questions in that area, we ask you not to join, rather waiting until after they have been issued fatigues and have started through a training program when some big tough sergeant, male or female, gives them that statement and they say, "well, nobody told me that. Nobody asked me." Then an administrative discharge with all of its unnecessary expense starts.

Just comment on how the policy is working. And a comment on those first two words, "don't ask."

Chief CAMPANALE. I think the current policy is working just fine. The truth is, this is something that has become a nonissue as I go around and talk to people. It is just not talked about.

I think we got through all of that several years ago. To begin talk of it would just ruffle people's feathers again. It is a nonissue. In terms of asking people right from the get-go, I am not so sure.

Mr. DORNAN. Before they are enlisted; the way our recruiters used to do.

Chief CAMPANALE. The way they ask on the form; I am not so sure people would even know then. I am not sure they would be so afraid as to not say anything, to not speak up at that time because I do not know if a young 18-year-old or 17-year-old would really know at that given point in time.

They may think it. Maybe this is their way to do something else for awhile to find out and validate if it is true. I do not know. I do not think anyone really knows at that point in time. I think it may put him in a compromising position where we ask them to lie.

Mr. DORNAN. Chief Petty Officer.

Chief HAGAN. I will answer it exactly the way I did when you asked me a year ago, sir. I would prefer to ask. I think it is more honest and direct. The second part of the answer to the question, I think the policy has not had a great impact because it does not represent much of a change.

The don't tell, don't pursue does not describe the policy as you read the first words, homosexuality is still incompatible. We are discharging approximately the same number of people for that particular offense. There have been spikes.

Is the present policy liveable and workable? Yes. Would I prefer to ask? Yes, sir.

Mr. DORNAN. Sergeant Major.

Sergeant Major OVERSTREET. I am the same way, sir. I do think little or nothing has changed along the way. If you admit it, you are separated. If you are caught, popped positive, you are separated. Nonetheless, I would suggest to you that our deployment—

Mr. DORNAN. Just say that last statement again please.

Sergeant Major OVERSTREET. If you are popped positive; in other words, if you get caught.

Mr. DORNAN. The reason I asked you to repeat it, unfortunately, is because if the service finds out you are HIV positive—

Sergeant Major OVERSTREET. You are absolutely right. I am saying as a homosexual.

Mr. DORNAN. Right.

Sergeant Major OVERSTREET. I would suggest to you, sir that the OPTEMPO is so intensive right now, we are not running around looking for homosexuals. Once again, once they come to the forefront, they are separated, sir.

To answer your question, would I like to ask, absolutely because I think otherwise it tarnishes our integrity.

Mr. DORNAN. Sergeant Major, you are the anchorman in this mine field. Everyone else went through it.

Sergeant Major KIDD. I would have to agree with them too because when we testified before you, I think it was a couple of years ago actually, you did ask that question. We all did, at that time, tell you that yes, we would rather ask because it was kind of in our mind an integrity thing.

However, I have got to tell you, like the rest have said, the present system is working. We have about the same numbers. I would hate to see it come up again, particularly right now. I do remember the turmoil that it caused in the force. I would not want to add that on to everything else that we have going on right now. I would only say that if anyone decides to resurface, wait a couple of years anyway until we are totally settled down.

Mr. DORNAN. I take that as good advice. That was actually the policy we were sort of laying down for at least a year. None of you would find this would cause any little earthquakes or trimmers if we proceed at a pace to discharge honorably those who are HIV positive, since they cannot give blood, and cannot go overseas, and can't shoot anything, or fly, or sail?

Chief HAGAN. In the Navy, sir, they are a part of a population that is nonworldwide assignable. That does impact on the readiness. I have met a number and feel for them. I put them in the same category of an insulin-dependent diabetic. I would prefer to see them treated in that manner with complete medical care consistent with the condition and the service that they have rendered.

Mr. DORNAN. Thank you.

Sergeant Major OVERSTREET. I, too, think the same way. I think that we ought to separate them because they are nonworldwide deployable. In our business, we need worldwide deployable folks.

Mr. DORNAN. And a walking blood bank.

Sergeant Major OVERSTREET. Absolutely.

Mr. DORNAN. That is all I have, Mr. Chairman.

Mr. BATEMAN. The gentleman from Missouri, Mr. Skelton. Any further questions from you, Ike?

Mr. SKELTON. No.

Mr. BATEMAN. The gentleman from Texas, Mr. Tejeda.

Mr. TEJEDA. Thank you, Mr. Chairman.

Mr. BATEMAN. Mr. Ward.

Mr. WARD. No.

Mr. BATEMAN. Excuse me, Mr. Bartlett.

Mr. BARTLETT. No.

Mr. BATEMAN. We are delighted to have had you before us. Your testimony has been very, very helpful to us this afternoon. Your service throughout of great importance to the Nation. Thank you.

[Whereupon, at 6:30 p.m., the hearing recessed.]

[The following questions were submitted for the record.]

Fourth Quarter Problems

Question: The impression conveyed by the DOD is that the resource shortfalls and readiness problems experienced in FY94 were a fourth quarter problem exclusively. What is your view?

Answer: The 52FW suffered no significant readiness problems during FY94. We did experience an increasing number of peacetime training shortfalls throughout the year which required peacetime training waivers for specific requirements. However, the overall impact of these peacetime training waivers was negligible. The 52FW had no resource shortfalls that affected readiness in FY94.

Shortfalls to full funding

Question: At the beginning of FY94 were all your requirements for training, maintenance, base operations and quality of life fully funded? If not, what were the shortfalls? Did you begin FY95 fully funded? Do you anticipate having to divert training or maintenance dollars to other unfunded or underfunded requirements in FY95?

Answer: Operational training, maintenance, and base operations were fully funded for both FY94 and FY95. The 52FW did not receive funding for all quality of life initiatives but major portions of the wing's program were funded. We do not anticipate a requirement to divert training or maintenance dollars to fund other unfunded or underfunded programs.

Impact of Contingency Operations

Questions: In addition to training deficiencies in non-deployed units resulting from a shortfall in funding, forces deployed in support of various contingency operations appear to be unable to meet all of their warfighting requirements.

How has the high level of contingency operations affected your ability to conduct scheduled training?

Answer: The high contingency tasking has made it more difficult to schedule and complete required warfighting training. However, with careful scheduling and optimum use of training opportunities, the 52FW has successfully completed most scheduled training.

Question: Are you training to your requirements?

Answer: Yes. We have some training shortfalls for selected events but all 52FW squadrons are meeting their primary training requirements.

Question: Has unit training in war competencies been deferred?

Answer: No. All 52FW combat units can meet their wartime mission tasking.

Questions: How do you assess the impact of not accomplishing needed training on your ability to maintain readiness for your primary mission?

Answer: There is no impact. The 52FW squadrons can meet the requirements for their primary combat mission.

High PERSTEMPO

Question: Please comment on the affect high PERSTEMPO has on quality of life, morale, and retention. Have current readiness reporting guidelines been modified to recognize the importance of such factors?

Answer: The high PERSTEMPO affects quality of life, morale, and retention in a variety of ways. Although we look at a variety of quality of life indicators, we do not have enough data to quantify the exact impact. The 52FW has focused support efforts for our military personnel and their families to mitigate the adverse impacts of our high PERSTEMPO. Current readiness reporting procedures accurately reflect the actual combat capability of 52FW units.

Constraints on Resources

Question: What readiness requirements are not being met due to a lack of, or constraints on, resources?

Answer: None. The 52FW is meeting all readiness requirements.

Force Readiness

Question: If the current pace of operations continues, what do you see that needs to be done to ensure force readiness both in the near-term and long-term?

Answer: In the near term , the USAF must continue meeting operational contingency requirements using the "total force." US-based active duty wings, Air National Guard (ANG) units, and Air Force Reserve (AFRES) squadrons periodically replace 52FW units deployed in support of contingency operations. This relief allows 52FW squadrons to conduct critical training thus maintaining a high readiness posture. The USAF must continue this practice of using all available forces (active, ANG, and AFRES) to meet contingency requirements. In the long term, we cannot afford to sacrifice modernization to pay for current readiness. Modernization is vital to future readiness.

Stressed Units

Question: What have you identified as the units or capabilities most stressed in meeting operational requirements? Are you satisfied that sufficient corrective action is being taken?

Answer: Our operational flying squadrons, composed of both operations and maintenance personnel, are the most heavily tasked units. However, the USAF has provided the 52FW with the resources to complete all required training and maintenance activities for these units. We are focusing much of our attention on meeting the quality of life needs of the military members and their families. While these units are operating under increased stress, there are no issues that require "corrective action."

Readiness Trends

Question: From your perspective, what are the most serious readiness trends? What needs to be fixed?

Answer: From an operational perspective, the USAF has provided the 52FW with all required resources to meet readiness requirements. Current USAF policy to use the "total force" to meet contingency requirements has provided the 52FW with adequate time to conduct high-value training which helps sustain peak combat readiness. We are focusing much of our attention on quality of life issues so that we take care of our military members and their families to the best of our ability.

FTE

Yes, the man-year ceiling applies to the 52FW at our overseas location. It applies to both US and German employees. We also support the Air Force position that this ceiling takes away from our management flexibility and prefer to manage our work force based on a budget approach.

RECRUITING GOALS

The two primary resources we use to generate accessions are manpower and advertising. The following additional resources are considered necessary to meet recruiting goals in FY96:

Expanded advertising. Advertising is half of what it was in 1990. Radio advertising is a proven, economical media to reach the targeted, recruitable market. In March 1994, we ran our first paid radio ad campaign in over four years. The result of the first month of radio advertising was a 300% increase in potential prospect leads compared to the previous months business. Due to the increasing difficulty in recruiting experienced so far in FY95 and the forecast for even greater challenges in FY96, Air Force Recruiting Service is reassessing their budget requirements. We've increased the FY95 funding by \$2.5M. In the FY96 President's Budget, we fully funded all known recruiting requirements; however, increasing recruiting challenges indicate an additional \$6M is now required.

Expanded manpower. Recruiting Service is adding additional production recruiter authorizations to the field from unfilled overhead positions. This fiscal year, we're hiring 75 prior service applicants to recruit in hard-to-fill geographic areas. We're augmenting field recruiters with "blitz" teams from the headquarters to generate leads.

QUALITY OF LIFE FOR RECRUITERS

Air Force is looking at ways to improve recruiters' quality of life:

Leased and Base Housing. We are taking action to increase the availability of leased government housing in high cost areas and to provide priority base housing.

Special Duty Assignment Pay (SDAP). We are working with the other Services to explore tying SDAP to pay raise increases -- this will motivate more individuals to apply for recruiting duty and more recruiters to stay. It will also alleviate the financial burden many of our recruiters reported in the most recent recruiter survey.

Recruiter Hiring. We have received authority to hire 75 recruiters from the prior service market for assignment to our hard-to-fill areas. This will relieve some of the pressure on the current recruiting force, which is forced to pick up the slack.

Health Care. Cost and availability are the major quality of life problems for our recruiters assigned away from military installations. We need to explore innovative ways to improve the health care of our members and beneficiaries assigned outside the limits of military installations.

Out of Pocket Expenses. Recruiters are authorized reimbursement for out of pocket expenses, not to exceed \$75.00 per month. We are looking to get an increase in out of pocket reimbursements for recruiters.

Toll and Parking Fees. Many of our recruiters cite excessive toll and parking costs in their areas -- we're looking at ways to reduce or eliminate these costs.

Home Basing Program. We've instituted a red carpet treatment for recruiters and their families when visiting a military installation. Prioritized billeting, medical appointments, and complimentary open mess passes are part of the red carpet treatment we provide to recruiters.

Loss of Annual Leave. The most recent recruiter survey revealed many recruiters lost part of their annual leave. We're working hard to ensure recruiters are able to take, as a minimum, a full 30 days of leave annually.

Working Hours. The recruiter survey also indicated many recruiters are working excessive hours. Part of the reason for this is that Air Force recruiters enlist more applicants than any other branch of the Armed Forces. As we increase the number of recruiters on the force, we expect this will reduce their working hours.

Child Care Costs. Child care is an overwhelming concern. Due to the fact most recruiters are not near a base, they are unable to take

recommend providing child care assistance to families over and above what they would normally pay on a military facility.

Spouse Support Programs. Considering the average recruiter is 60 miles from his/her supervisor, it is difficult to have an effective spouse support program. We are looking at ways to improve spouse support.

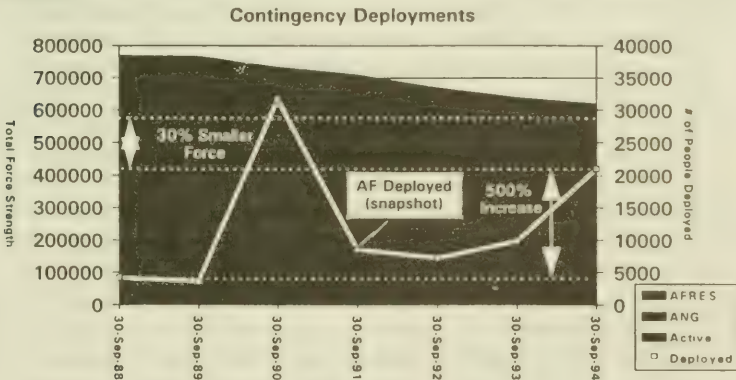
Education and Training. Education and training are key elements of a successful sales force. Increased education and training will reduce recruiters' work hours.

Sales Comprehension Test. We've instituted the Sales Comprehension Test for all new recruiter applicants. This test is a proven predictor of sales ability, and will reduce attrition from the recruiter sales force.

READINESS AND PERSONNEL ISSUES

Question: Based on your long years of service, compare the pace of operations experienced by your service recently with past periods.

Answer: Peacetime OPTEMPO has risen dramatically since the end of the Gulf War. During 1994, numerous contingency operations such as PROVIDE COMFORT, SOUTHERN WATCH, RESTORE HOPE, and DENY FLIGHT increased the demand for Air Force resources at a time when the force structure downsizing was nearing its conclusion.



This generated a three to five fold increase in our deployment rate with a 30 percent smaller active duty force and a 40 percent decrease in the number of troops stationed overseas. This level of activity has involved more operations of greater duration than at any time in the past 20 years. Although only a small percentage of our total force is deployed, there are a few key weapon systems that are experiencing dramatically increased TDY rates. For example, aircrews in some of our highest tasked units like Rivet Joint, Special Operations, and Rescue were TDY over 180 days last year.

This level of OPTEMPO could have repercussions in recruiting, retention, and quality of life. To avoid this, the Air Force instituted several initiatives to mitigate the impact of high PERSTEMPO. These include:

- Additional Air National Guard and Air Force Reserve augmentation
- Worldwide Combat Air Force support of contingency operations
- Selective relief from heavy taskings
- Cross utilization of support personnel through PALACE TENURE

The Air Force believes these measures will soften the impact of high OPTEMPO while maintaining the capability to provide the Nation a preeminent air and space force that is ready to respond to any worldwide tasking.

Question: The pace of operations has placed a significant stress on service members and their families. In your opinion, how have those stresses manifested themselves?

- a. Increased family problems?
- b. Reduced retention?
- c. Increased disciplinary problems?
- d. Increased drug/alcohol abuse?
- e. Increased numbers of people seeking early release from service?

Answer: When we measure the manifestation of stresses on service members and their families, we can't isolate the impact of one single factor, i.e., the pace of operations.

a. Increased family problems: Family problems can be measured in several ways. First, the divorce rate per year, per thousand personnel, has varied only slightly over the past five years. Child abuse incidence per thousand has only marginally increased, and spouse abuse incidence per thousand has increased from 9.54 per thousand to 13.31. The increased spouse abuse rates, however, also reflect an increase of reports as individuals become more aware of spouse abuse and are reporting it more frequently than in the past.

b. Reduced retention: We do not believe that PERSTEMPO has had an impact on retention. Reenlistment rates for most high PERSTEMPO career fields remain high. In fact, as many as 40% of those career fields have higher first term reenlistment rates than the Air Force as an average. Air Force average for first term is 60 percent; second term -- 81 percent; career -- 96 percent.

c. Increased disciplinary problems: The number of Article 15s issued over the past five years has decreased from a rate of 23.17 per thousand to 17.16 per thousand in 1994.

d. Increased drug/alcohol abuse: Over the past five years, the incidence of alcohol and drug cases have decreased. For alcohol incidence, the rate has decreased from 19.0 per thousand to 14.3 per thousand. For drug incidence, the rate has decreased from 1.84 per thousand to 1.0 per thousand.

e. Increased number of people seeking early release from service: There are no indications that people are seeking early release as a result of the increased PERSTEMPO. The participation rate of those in high OPTEMPO skills varies from skill to skill. Much of the variation is due to our drawdown philosophy which targeted specific year groups and skills.

Question: The impression conveyed by many in the service is that service members are excited and challenged by the high pace of operations, and that the force is standing the stress well. In your opinion, are these perceptions accurate, or do you have concerns that perhaps the force is near breaking?

Answer: From all the indicators those perceptions are accurate. There is no doubt, however, that the increased pace of operations is generating additional concerns for our people. But, they are recognizing their problems and seeking help through our Family Support Centers. The help we provide is critical to preventing those "breaking points". In the Family Support Centers for example, client contacts rose from 2,115,781 in 1993 to 3,157,643 in 1994 despite a decrease in the number of personnel on active duty. Increased client contacts could be attributed to a greater awareness of Family Support Center programs; however, most Centers report that the majority of the contacts are related to readiness issues. As long as we remain sensitive and responsive to the needs of our people and we closely monitor the force to see that the PERSTEMPO burden is spread as evenly as possible, we can prevent serious problems from occurring. We must also continue to proactively monitor the quality of life of our troops, especially among those we ask the most of.

Question: There has been a lot of talk about a pay gap. We've heard that, based on service surveys, pay is one of the top reasons that service people give as causing them to leave the service. What's your perspective? Should Congress make an effort to close the so-called pay gap or should any additional funding, if available, be spent elsewhere?

Answer: Given sufficient resources, the Air Force would like to provide military pay raises commensurate with that of the average American worker. Those who wear the uniforms of the Armed Forces of the United States set aside many of the personal freedoms they defend. They sacrifice stable family lives to serve their country, and they certainly don't do it to get rich. Nonetheless, they deserve an even shake, not because they'd "walk" if we don't give it to them, but because it's the right thing to do in recognition of what they do for this Nation.

In addition to closing the pay gap, we need to get the housing allowance program up to where it should be. Members are paying more than 21 percent of their housing expenses out of basic pay when the intent has always been that they would only have to pay 15 percent out-of-pocket to support their housing needs. We would also establish local housing allowance floors to ensure junior troops can afford adequate housing when we can't provide it on base, and we'd like to protect their individual allowances from decreasing while they're committed to off-base housing contracts.

READINESS

Mr. Bateman and Mr. Dornan: The impression conveyed by the DOD is that the resource shortfalls and readiness problems experienced in FY 94 were a 4th Qtr problem exclusively. What is your view?

General Funk: The problem emerged during the 4th quarter because:

Our approach was to spend allocated funds to maintain the highest level of readiness as long as possible.

We made an early decision to maximize readiness believing that we would get supplemental funding in a timely manner.

As we approached the end of the FY (4th Qtr) the costs of unprogrammed deployments (paid by FORSCOM) resulted in little additional funding to pay for 4th Qtr training and sustainment.

Mr. Bateman and Mr. Dornan: At the beginning of FY 94 were all your requirements for training, maintenance, base operations and quality of life fully funded? If not, what were the shortfalls? Did you begin FY 95 fully funded? Do you anticipate having to divert training or maintenance dollars to other unfunded or underfunded requirements in FY 95?

General Funk: No, at our echelon all requirements for FY 94 were not fully funded. For FY 95, while giving us more money up front, we are not fully funded. Depending on deployment priority, our units are funded at different levels (with our highest priority units funded at 90% and our lowest priority units at 73%). The average for the Corps is about 78% funded for training. In FY 94, this underfunding caused us to partially mortgage 1st Qtr 95, by drawing down parts stockages to pay for 4th Qtr training of high priority units and must fund sustainment.

In FY 94 we had to reprogram approximately \$32M of our approximately \$423M OMA budget to cover must fund and critical quality of life shortfalls and to invest in automation to position ourselves for the future. In FY 95 we are funded at 65% of our requirements for BASOPS, and we are prohibited from moving funds from mission to BASOPS.

The following Quality of Life areas suffered due to lack of funding in FY 94:

- Backlog of Maintenance and Repair (BMAR) has grown to \$53M at Fort Hood as we deferred maintenance of our infrastructure.
- Invested \$976,000 NAF funds in child care; insufficient AFP funds to support staffing.
- Cut Family Outreach Programs by 50%.
- Reduced service hours in the library, recreation centers, and auto craft shops.
- Cut Consumer Affairs and Financial Assistance counseling by 75%.
- Eliminated music and theater programs.
- Eliminated Installation Check Control Program.
- Raised prices for most recreational programs/services.
- Lacked funds to maintain or repair MWR equipment and facilities.

As resources decreased, the demand for services actually increased since the Fort Hood soldier and family population increased in FY 94.

Mr. Bateman and Mr. Dornan: How has the high level of contingency operations affected your ability to conduct scheduled training?

General Funk: Because of contingency operations such as deployments to GTMO and the western wildfires, approximately 25% of planned maneuver and gunnery training for FY 94 was canceled.

The act of deploying soldiers represents only a part of the readiness challenge. As a result of these deployments, especially the longer term deployments, like GTMO, we have created a 4-6 month training program for recovering soldier battlefield skills and therefore readiness. Further, units replacing those committed must prepare and train for such missions.

A final point concerns the impact of Operation Other Than War (OOTW) deployments on organizations. Some of these deployments do not involve deploying whole units. For example we receive requirements to deploy 130 cooks or 50 supply specialists. This non-standard but probably necessary (practical) approach further undercuts readiness. When these sorts of specialties are taken out of units for extended periods of time, we experience a negative impact on readiness.

Mr. Bateman and Mr. Dornan: Are you training to your requirements?

General Funk: In most cases we are, and we plan to do so for at least the first 3 quarters. However, we still have some training problems. Our training program requires a battalion external evaluation (EXEVAL) prior to every NTC rotation and at least every 18 months for non-NTC bound battalions. Contingency operations and funding shortages have caused us to focus at platoon and company level precluding battalion level EXEVALs. Units not scheduled to go to the NTC do not undergo an EXEVAL.

Mr. Bateman and Mr. Dornan: Has unit training in war competencies been deferred?

General Funk: Contingency missions often preclude units from training on their wartime competencies. For example, we deployed an Artillery Battalion for security missions in GTMO. When that unit returns to its home station, it will take 120-180 days for them to recover their wartime competencies. If we continue the present pace, this may cause increased problems. We are dealing with it now.

Mr. Bateman and Mr. Dornan: How do you assess the impact of not accomplishing needed training on your ability to maintain readiness for your primary mission?

General Funk: Depending on the type of unit, units deployed for extended contingency missions will require 120-180 days to recover their Training Readiness. Deployments of short duration, 30-45 days or less tend to have less impact on Training Readiness.

As our ability to sustain battlefield skills is eroded over years of non-standard and prolonged OOTW deployments, we may tend to bank "unreadiness." One solution in the event of an OOTW operation, may be initially to use our soldiers, but then rapidly transfer the sustainment to contractors or other agencies. The concept of having specialties-cooks, medics, engineers-removed from our combat arms units for extended periods of time erodes readiness. Recommend we even consider hiring private organizations to provide security at places like GTMO.

Mr. Bateman and Mr. Dornan: Please comment on the affect high PERSTEMPO has on quality of life, morale, and retention. Have current readiness reporting guidelines been modified to recognize the importance of such factors?

General Funk: There have been peaks and valleys in the indicators caused by our extreme mission load, but good lower-level leadership and programs have been able to bring them into the normal range. Congress has helped by increasing the Variable Housing Allowance and allowing the soldiers to keep their Subsistence Allowance while deployed. Pay differential remains, in my opinion, the biggest negative influence on morale.

PERSTEMPO has affected retention rates within those units that have been called upon the most: the 89th Military Police Brigade and the 31st Air Defense Brigade. In FY 94, both units did not meet their retention objectives for both first term and mid-career soldiers. The 89th Military Police Brigade is meeting its objectives for FY 95; but, the 31st Air Defense Brigade is still below their objectives. This can be directly attributed to a pending rotation to southwest Asia and the Brigade's move to Ft Bliss. There is one unit in the Brigade, 4-43 Patriot Battalion, that will have been stationed in Europe, Ft Hood, Saudi Arabia, and Ft Bliss during a 4-year period. We enlist the soldier, but we re-enlist the family; repeated deployments and multiple moves are stressful to families and make it difficult to retain quality soldiers.

Readiness reporting does not directly take PERSTEMPO into account except in the form of Personnel Turnover Rate, which measures the percent of soldiers leaving a unit during the reporting period. A commander can address issues such as morale, quality of life, and retention in the commander's comments portion of the readiness report if he deems that those issues adversely affect his unit's readiness.

Would not make too big a point of PERSTEMPO etc. right now. I have just finished an 8-day swing through III Corps, and morale remains good. I believe that is because we are training hard in the warfighting skills for which our soldiers enlisted/reenlisted. We must not lose that thrust/drive. However, repeated funding shortfalls like we had in 4th Qtr FY 94 will cause morale problems. CSA has laid out the dollars needed to train to standard, and we need that level of funding.

Mr. Bateman and Mr. Dornan: What readiness requirements are not being met due to a lack of, or constraints on, resources?

General Funk: No supplemental funding has reached the installation. Depending upon the level of resources received, we will be able to mitigate some or all of the decrements to training and quality of life.

Mr. Bateman and Mr. Dornan: If the current pace of operations continues, what do you see that needs to be done to ensure FORCE readiness both in the near-term and long-term?

General Funk: We must fully fund home station training, flying hours, and BASOPS. Fund the supplemental appropriation for FY 95 and provide a secure and adequate funding stream for FY 96. This would provide a partially predictable environment for commanders to plan and execute training. We'll probably never totally predict deployments, but full funding would help a lot. Allow us to move money to BASOPS if we feel it necessary; commanders need that flexibility.

As our ability to sustain battlefield skills is eroded over years of non-standard and prolonged OOTW deployments, we will tend to bank unreadiness. Contracting out quickly would help. The concept of having specialties-cooks, medics, engineers-removed from our combat arms units for extended periods of time erodes readiness.

In the longer term, we must have funding for modernization.

Mr. Bateman and Mr. Dornan: What have you identified as the units or capabilities most stressed in meeting operational requirements? Are you satisfied that sufficient corrective action is being taken?

General Funk: The units most stressed are Military Police, Engineer, Medical, Patriot Air Defense, and Logistics units. Also individuals who are able to speak Spanish or Haitian Creole, regardless of occupational specialty or rank, are stressed.

The only corrective actions available are still constrained by resources and time.

As our ability to sustain battlefield skills is eroded over years of non-standard and prolonged OOTW deployments, we will tend to bank unreadiness. We must work on new techniques to, in the event of an OOTW operation, initially use our soldiers, but then rapidly transfer the sustainment to contractors. The concept of having specialties-cooks, medics, engineers-removed from our combat arms units for extended periods of time erodes readiness.

Given the demands on our military capabilities, we are taking actions to moderate the effects on soldier morale and readiness. We are designing rotation patterns that allow the soldier time to recover from deployments. Further, we have new programs for post-deployment training that bring soldiers and units back to proper readiness standards.

Mr. Bateman and Mr. Dornan: From your perspective, what are the most serious readiness trends? What needs to be fixed?

General Funk:

Institution

- Predictable, secure funding stream.
- Pay soldiers more to stay than to leave.

Units

- Provide required resources: dollars, time, and equipment.

Soldiers

- Fully resource training.
- Following initial soldier employment, transfer sustainment of OOTW operations to contractors.

Families

- Fund BASOPS to 100% so we can provide an adequate Quality of Life and repair housing and post infrastructure.
- Housing!!! Accessible and Affordable. Give a soldier VHA equal to the delta between BAQ and rental cost.
- Pay raise!
- Impact aid. Families are genuinely upset at the thought that their children's education will suffer because fathers and mothers volunteered to serve in the Armed Forces of our country.

PACE OF OPERATIONS

Mr. Bateman and Mr. Dornan: Based on your long years of service, compare the pace of operations experienced by your service recently with past periods.

Sergeant Major of the Army Kidd: The frequency and pace of operations are the highest I have seen in my time in the United States Army. The pace is clearly more accelerated in some units and skills such as Military Police, Patriot missile, and transportation.

Mr. Dornan: The pace of operations has placed significant stress on service members and their families. In your opinion, how have these stresses manifested themselves in: increased family problems, reduced retention, increased disciplinary problems, increased drug and alcohol abuse, and increased numbers of people seeking early release from service?

SMA Kidd: First, I must make clear that morale is good. Soldiers are proud of who they are, what they are, what they do and how very well they do it. I believe the effect of our Army's OPTEMPO has manifested or will manifest itself in/by an increase in family financial difficulties; an increase in family problems; increased reports of physical and mental abuse; and, ultimately, by the encouragement from family members for the soldier to leave the service.

I think these problems are more likely to occur among soldiers in the more frequently deployed job skills I mentioned earlier. I don't think it has reached a critical level because soldiers and their families feel the leadership cares and is, at least, addressing their concerns. The danger, I believe, would be if they ever began to believe their concerns were being ignored.

EFFECT OF HIGH PERSTEMPO

Mr. Dornan: The impression conveyed by many in the service is that service members are excited and challenged by the high pace of operations, and that the force is standing the stress well. In your opinion, are these perceptions accurate, or do you have concerns that perhaps the force is near breaking?

SMA Kidd: Soldiers are excited and challenged by the pace of operations...doing exciting and challenging things is what they signed up for. Deployments are seen as a badge of honor or a rite of passage for most soldiers. The experience helps to validate them as veterans and gives them bragging rights to say, "I was there. I served. I survived, and I did well".

But, I wouldn't want anyone to misunderstand. As I stated earlier, soldiers and their families pay a price in their quality of life because of these frequent deployments. Our current successful retention rates are presently somewhat masked, I think, by the fact that we are downsizing and are being held in-check by the belief most of the soldiers and their families have that the leadership cares and will work hard to ensure that they are well trained and will provide them a decent quality of life. That trust is fragile, however, and could change rapidly if they felt those efforts were being reduced or being abandoned.

PAY GAP

Mr. Dornan: There has been a lot of talk about a pay gap. We've heard that, based on service surveys, pay is one of the top reasons that service people give as causing them to leave the service. What's your perspective? Should Congress make an effort to close the so-called pay gap or should any additional funding, if available, be spent elsewhere?

SMA Kidd: Pay is definitely a major issue for all our soldiers. Soldiers are reminded constantly that the pay gap, as measured by the Employment Cost Index (ECI), is 12.6 percent. Many soldiers feel a full comparable pay raise would fix most of the problems we are presently trying to fix with "band-aid" measures. This gap affects everyone in the Army family: soldiers, families, and retirees. The pay gap also sends soldiers a conflicting message: If we are the best Army our Nation has ever had, and, if we are successfully and effectively doing everything that's asked of us, why don't we receive comparable compensation? Any effort to close the pay gap would be appreciated by soldiers. While everyone realizes a comparable pay raise would be costly, perhaps it could be made up a little every year. Areas such as compensation, benefits, and quality of life are critical concerns for soldiers and their families.

NAVY RECRUITING RESOURCES IN FY96

Our Navy recruiters are working hard to reach our FY95 goals but we anticipate starting FY96 below the minimum acceptable percentage in our delayed entry program (DEP). Ideally, we would like to start FY96 with at least 45% in the DEP.

In your 14 March hearing, I testified to the challenges that are shaping up to make FY96 one of the toughest years our recruiters will ever face. The economy continues to provide jobs for the high quality youth we seek to recruit. These same young people currently exhibit the lowest propensity for military service in over ten years. The inclination of youth aged 16-21 to enlist in any branch of the Armed Forces has declined for the fourth straight year. The pool of high quality young men and women, though slowly beginning to increase, is still small and tough to reach. A higher percentage of high school graduates are enrolling in college than in recent years.

Our FY96 budget request took into account the above challenges. We provided additional resources to the recruiting effort and allowed Navy veterans in certain undermanned rates to return to active duty. I respectfully request your full support for these critical resources. Your strong leadership can prevent "skimming" in this crucial area. I watch the recruit effort very closely and receive a detailed monthly briefing on every aspect of our recruiting program. If the figures begin to show we require more resources to obtain the high quality recruits we need, I will not hesitate to go to the Chief of Naval Operations and tell him exactly what we need to fix the problem. We will not reduce quality to obtain numbers.

I can tell you now that, if funding beyond what was already requested for FY96 proves necessary, the plus-up would be applied to two principal areas - advertising and recruiters.

Again, it is too early for me to make the call that we need to augment the FY96 budget request for recruiting; however, I want to assure you that if and when the time comes for me to make such a call, I will make it loud and clear.

RECRUITER QUALITY OF LIFE IMPROVEMENT

ay we are operating in what is one of the toughest recruiting environments we have ever seen. Recruiting duty is challenging at the best of times, but we can see that in today's especially tough recruiting period the combination of long hours and living in areas far from the support of a military community is having a negative impact on the Quality of Life of our recruiters and their families.

There are some initiatives we have taken to ease the burden on our recruiters and ensure we continue to attract our finest Fleet Sailors to recruiting duty. Currently we give sea duty credit for serving as a recruiter in some particularly difficult locations. We also offer future assignment guarantees covering location, billet and ship type to attract recruiters to challenging assignments. To improve family stability, our top quality recruiters can request tour extensions of up to one year prior to rotating to the next assignment. A vigorous awards program within the Naval Recruiting Command recognizes our top performers with a wide variety of commendations that improve advancement opportunity. Recruiters can also compete for meritorious advancement. Clearly, there are significant rewards available to those who volunteer for the tough recruiting jobs and do well.

The recently enacted CONUS COLA program will also help our recruiters by providing increased compensation for those assigned to live in high cost areas without military facilities nearby.

Navy began implementation of TRICARE, the DOD managed health care program, in March 1995 and will be completed nation-wide by the end of 1997. With TRICARE, we should be able to ease some of the burden felt by our recruiters concerning ready access to quality health care.

There are some additional areas I've asked RADM Evans, the head of our Recruiting Command, to examine to improve Recruiter Quality of Life.

As the conditions our recruiters face have changed, Admiral Evans and I want to be sure that our work practices change to keep pace. We must avoid the obvious response to the tougher recruiting environment to merely work the recruiters harder and then keep the pressure on to work even harder as the challenge increases. We must ensure that we are working smarter, not simply harder, and that headquarters elements are open to innovative solutions to the unique circumstances faced by each district. We need to make sure our individual recruiters, those

on the front lines, are being heard on how we can best support them in their efforts. Admiral Evans is a champion of this philosophy.

A second major area where I want to do better is supporting our recruiters' families. Many of those young men and women came to recruiting command from a close-knit, very supportive military community. In just a short time, these Sailors move their families away from the support structure of the extended Navy family so many of us take for granted. Access to affordable child care, Family Service Centers, Ombudsman services, and spouse support programs can be lost or significantly reduced. I have asked RADM Evans to closely examine the support infrastructure available to our recruiters' families and let me know where we can better use existing programs, modified as necessary for recruiter-unique situations, to improve the Quality of Life for our recruiters and their families.

There is one final step I would like to take that, although seemingly innocuous, would immediately improve our recruiters' Quality of Life and strike a blow for common sense. The vast majority of our recruiters are not permitted to drive home in the government vehicles they use throughout the day. Although such usage is permitted by law, it is up to each Service Secretary to determine specific regulations governing home-to-work travel in official vehicles. Within the Recruiting Command, the Commanding Officer of each recruiting district is responsible for oversight of home-to-work travel in official vehicles appropriate for their geographic location. Currently, the requirement is that less than 1% of total monthly mileage in official vehicles can be in the home-to-work category. The typical figure actually works out to be about 0.5% of total mileage in official vehicles for the district.

What appears to have occurred is that, in response to past problems associated with use of official vehicles, we have severe restrictions in place that now actually hurt the recruiters and hinder their efforts. I intend to revisit this issue and see what can be done to inject common sense into the situation.

Much work will be required to do what I have just described to you but the results will be worth the effort and the cost. It takes a quality recruiter to deliver a quality recruit and the job gets tougher every day. We need to take care of the Sailors assigned to this most demanding duty.

I deeply appreciate your interest in this issue and will keep your staff apprised of our progress in making life better for our recruiters.

Question: The impression conveyed by the DOD is that the resource shortfalls and readiness problems experienced in FY 94 were a fourth quarter problem exclusively. What is your view?

ETCM(SW) Hagan: Training delays, maintenance deferrals and modifications to operational schedules created as a direct result of the 4th quarter FY 94 contingency response continued to affect planning through the current fiscal year. This is the "bow wave" effect that Admiral Flanagan spoke of, and we can still feel its effects today.

Question: At the beginning of FY 94, were all your requirements for training, maintenance, base operations and quality of life funded? If not, what were the shortfalls? Did you begin FY 95 fully funded? Do you anticipate having to divert training or maintenance dollars to other unfunded or under-funded requirements in FY 95?

ETCM(SW) Hagan: As Admiral Flanagan said, "Our requirements are not normally fully funded at the beginning of the fiscal year, and FY 94 and FY 95 were not exceptions." While I do not control funds, I, too, am concerned that we will have to divert funds if we do not get timely or adequate supplemental funding for contingency operations.

Question: In addition to training deficiencies in non-deployed units resulting from a shortfall in funding, forces deployed in support of various contingency operations appear to be unable to meet all of their warfighting requirements.

- * How has the high level of contingency operations affected your ability to conduct scheduled training?
- * Are you training to your requirements?
- * Has unit training in war competencies been deferred?
- * How do you assess the impact of not accomplishing needed training on your ability to maintain readiness for your primary mission?

ETCM(SW) Hagan: I concur with Admiral Flanagan's statement. Contingencies have major impacts on all Fleet schedules and our Sailors. They truly do have a "domino effect" on the training process and they can very quickly impact OPTEMPO and PERSTEMPO. Everyone involved must understand a smaller navy means, simply, that the interdeployment cycle will be shorter and the need for quality maintenance for equipment and leave and training for the crew will be more important than ever. Sometimes it seems to Sailors that ships in the interdeployment cycle are treated as a numbered fleet available for any contingency. This will eventually take a toll on Sailors and their families and equipment.

Question: Please comment on the effect high PERSTEMPO has on quality of life, morale, and retention. Have current readiness reporting guidelines been modified to recognize the importance of such factors?

ETCM(SW) Hagan: Admiral Flanagan's response is right on track. Additionally, if we work Sailors too hard for too long, their quality of life and morale will suffer and they will leave the Navy when they reach their career decision points (reenlistment). We have the proof of this behavior pattern and do not need to do a great deal of research on it. This is a "pay me now or pay me later" issue. This decision is more and more becoming a family matter and they have a significant influence on a Sailor's decision to stay or leave. It is not an issue, however, confined to married Sailors. We cannot afford to take advantage of any of our Sailors by working them for too long beyond reasonable expectations.

Question: What readiness requirements are not being met due to a lack of, or constraints on, readiness?

ETCM(SW) Hagan: I concur with Admiral Flanagan's statement. It is imperative that we have the supplemental funding (and future funding support) to meet our maintenance needs and to properly and consistently train our warfighting force.

Question: If the current pace of operations continues, what do you see that needs to be done to ensure force readiness both in the near-term and long-term?

ETCM(SW) Hagan: As Admiral Flanagan said, "An early decision on supplemental funding for contingency operations is necessary to preclude these operations from producing training and maintenance readiness shortfalls."

Question: What have you identified as the units or capabilities most stressed in meeting operational requirements? Are you satisfied that sufficient corrective action is being taken?

ETCM(SW) Hagan: The fleet CINCs continuously identify the units specifically stressed in their claimancy. Based on their information and the leadership and guidance of the CNO, I am satisfied that sufficient corrective action is being taken to ease these stresses (within expected operational commitments). Except for isolated units and personnel, we are currently staying within reasonable OPTEMPO/PERSTEMPO levels, and I believe more Sailors will see a better quality of life in the future than they have in the past.

Question: From your perspective, what are the most serious readiness trends. What needs to be fixed?

ETCM(SW) Hagan: I concur with Admiral Flanagan's answer, especially where he says, "...I consider our personnel readiness to be very high, prolonged and unscheduled underway periods away from homeports and families will ultimately cost us well-educated and competent Sailors who may decide against careers in the world's finest Navy. Our true strength is in our people."

In addition to the concerns expressed by Admiral Flanagan, I worry that our training needs at every level may degrade and deteriorate over an extended time of budget shortfalls. Recruit and apprentice training, initial and advanced skill training and fleet team and refresher training are all very important components of overall readiness. Continued budgetary pressures of the past have resulted in decisions to eliminate or curtail training, to reduce periodicity of training, to selectively train fewer and to utilize less effective training devices and methods and to delay bringing new courses on line. This is a real concern because this kind of degradation occurs slowly and is difficult to detect until it has already produced damage -- then correction is time consuming and costly.

PACE OF OPERATIONS

QUESTION: Based on your long years of service, compare the pace of operations experienced by your service recently with past periods.

ANSWER: The impact of the pace of operations has definitely increased since the beginning of Operations Desert Shield/Desert Storm. While it is understood that OPTEMPO/PERSTEMPO guidelines will be exceeded during times of hostility and a war, our nation has been enjoying, in fact, what must be called peaceful times. Despite that, the Navy's OPTEMPO/PERSTEMPO has been high because we have been enforcing the no-fly zone policy in Iraq and an embargo on the shipping lanes patrols/boardings in the Gulf and Red Sea. Somalia, Haiti and heightened tensions in North Korea have also taxed our ships and Sailors as we were diverted to stage forces where they were needed. Simultaneously, the force has been drawing down; less ships, fewer Sailors. That means we must often use ships scheduled to be in home port conducting maintenance and providing much needed personal leave opportunities for the crew.

STRESS MANIFESTED BY PACE OF OPERATIONS

QUESTION: The pace of operations has placed significant stress on service members and their families. In your opinion, how have those stresses manifested themselves?

- (A) Increased family problems?
- (B) Reduced retention?
- (C) Increased disciplinary problems?
- (D) Increased drug/alcohol abuse?
- (E) Increased numbers of people seeking early release from service?

ANSWER: (A) INCREASED FAMILY PROBLEMS -- Even with the downsizing the Family Service Centers (FSCs) provided 1 million more contacts or services in FY-94 than they did in FY-93. FSCs provided more than 3 million services for active duty and family members in FY-93, over 4 million in FY-94. The Family Service Centers are not just for families with problems but these increases are indications that service members and service members with families are seeking positive means, such as counseling, education and training, to enable them to cope with the stresses of life situations.

ANSWER: (B) REDUCED RETENTION -- Reduced retention is a result of many factors, certainly including the pace of operations. A recent study by the Center for Naval Analyses (CNA) looked at the influence of various factors on retention. This study concluded that, while a combination of factors such as PERSTEMPO, pay, reenlistment bonuses, civilian unemployment rates, and Navy occupations cause fluctuations in retention statistics, it is difficult to accurately determine the exact effect of each separate factor.

The Navy is now measuring OPTEMPO against several parameters, including:

-- Turnaround ratio. (The time in port between major deployments, relative to the major deployment. Note: 2.7 to 1 is considered acceptable and attainable, but much of the Navy is now hovering at, or just above 2 to 1, 12 months in home port between six month deployments).

-- Interdeployment cycle. The 12 to 18 months between major deployments is monitored in an attempt to ensure that the training, assist visits, system certifications, etc., necessary to maintain Mission ready status and the underway (at sea) time for local operations and contingencies does not impact on Sailors' quality of life. Unplanned operations such as Haiti, Cuba and North Korean contingencies have a major impact on the interdeployment cycle.

Many Sailors worry that ships in their interdeployment cycle are viewed by some government leaders as a ready fleet for any contingency when, in fact, this cycle is intended as a necessary period of quality maintenance, upkeep, training and crew/ship qualifications and certification. Sailors do, however, fully understand that we are a forward deployed force and, further understand that this constant forward deployment is both our strength and our relevance.

ANSWER: (C) INCREASED DISCIPLINARY PROBLEMS -- The Navy's Sailors are the best behaved, most disciplined force I've seen during my service. In the past few years, we have seen a decline in disciplinary action. The amount of fines and forfeitures from Non-Judicial Punishment (Captain's Mast) are down. Stress has not manifested itself into more disciplinary problems.

ANSWER: (D) INCREASED DRUG/ALCOHOL ABUSE -- All indicators show that alcohol and other drug abuse have been remaining constant or on a slightly downward trend. For instance, statistical data from the Navy Safety Center shows that alcohol- and drug-involved fatalities and injuries are declining. We are continuing an aggressive campaign of education and prevention.

	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Motor Vehicle Fatalities					
Total Navy.....	168	148	128	120	86
Alcohol/drug-involved..	78	62	62	65	34
% alcohol/drug-invol..	46%	42%	48%	54%	39%

	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Motor Vehicle Injuries (five or more lost workdays)					
Total Navy.....	1,013	901	723	562	428
Alcohol/drug-invol....	290	255	178	146	94
% alcohol/drug-invol..	29%	28%	25%	26%	22%

Recreation, athletics and home fatalities and injuries (five or more lost workdays)

	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Total Navy fatalities..	39	38	41	36	29
Alcohol-involved.....	15	13	11	12	5
% alcohol-involved.....	38%	34%	27%	33%	17%
Total Navy injuries..	1,214	919	788	671	460
Alcohol-involved.....	78	61	30	40	29
% alcohol-involved...	6%	7%	4%	6%	6%

Drug testing results provided by the four Navy Drug Screening Labs show a steady decrease in drug use over the long term (slight increase in FY93 due to improved detection capability):

	<u>FY83</u>	<u>FY85</u>	<u>FY87</u>	<u>FY89</u>	<u>FY91</u>	<u>FY93</u>	<u>FY94</u>
Samples tested....	1.11M	1.82M	2.04M	2.06M	1.75M	1.68M	1.58M
Positive.....	7.21%	2.98%	2.37%	1.67%	.64%	.81%	.85%
	[60K]	[54K]	[48K]	[34K]	[11K]	[13K]	[13K]

Although trends remain steady, alcohol remains a significant concern. Continued support for the Navy Drug and Alcohol Program is vital.

ANSWER: (E) EARLY RELEASE -- The Navy has had policies on early release from the service for many years, depending on need. In recent years, our policy has been to allow commanding officers the ability to authorize early releases, within certain parameters, if the unit manning and operations levels would permit the loss of the individual. This policy is part of our force-shaping program, designed to downsize the Navy. We do not have firm evidence that the pace of operations may be causing an increase in early releases from the Navy, but it is clear from the numbers of first and second term Sailors requesting early release, and being denied at the unit level command where OPTEMPO is high, that unrestrained early out access would impact dramatically on readiness.

The Navy is, and always has been, an expeditionary force. Sailors understand that constant forward deployment is a vital part of our mission. Sailors are, in fact, proud that their sacrifices contribute to national security throughout periods of peace and hostility.

STANDING THE STRESS WELL

QUESTION: The impression conveyed by many in the service is that service members are excited and challenged by the high pace of operations, and that the force is standing the stress well. In your opinion, are these perceptions accurate, or do you have concerns that perhaps the force is near breaking?

ANSWER: Sailors join the Navy and train to meet the challenges of today's technical force. You are quite correct that they are excited and challenged. It is not uncommon to find Sailors in the toughest assignments to have very high morale. While enforcing the no-fly zone in Iraq, for example, it was not uncommon for flight operations on an aircraft carrier to continue around the clock. In one of the most dangerous working environments anywhere, on the flight deck, crew members often worked 20 hours (and more) at a stretch. It is during execution of the mission or during realistic training that Sailors are pumped with adrenaline and excited. In fact, last year when the INCHON ARG returned from deployment and was immediately turned around to stand off the coast of Haiti, the Sailors aboard the ships were proud and excited to be the ones on the scene.

There is, however, a toll. When OPTEMPO AND PERSTEMPO are too high for too long, it is easy to see signs of burnout. The force is currently handling the stress well. Morale, especially as it is influenced by stress, hangs on a delicate balance that can quickly be affected by what might, on its own, generally be considered a trivial matter (the proverbial "straw that broke the camel's back"). It is of paramount importance that we continually focus on constantly improving quality of life issues (especially those for the shipboard, deployed Sailors) so that, when Sailors are not involved in high-pace, exciting operations, he or she has the time to relax in an environment relatively free of annoyances and frustrations. That also means that they must know that their families are adequately taken care of while they are deployed. My top six priorities, are (1) adequate compensation; (2) quality housing (family and bachelor); (3) medical care (4) over the long haul, OPTEMPO/PERSTEMPO within a bearable range; (5) education (ample educational opportunities ashore and afloat; i.e., PACE II); and (6) network to meet the needs of members, their families (Family Service centers, Ombudsmen, religious outlets, counseling and assistance programs, recreational activities, etc.).

Is the force near breaking? I don't think so as a group, but I do believe that there is enough stress for us to be concerned about. Some individuals are better able to handle the stress than others; we need to ensure that we take care of each Sailor and his or her family. Our Sailors -- and their families -- are America's best weapon. We must consistently invest in the maintenance and upgrades of that weapons systems to keep it a dependable and lethal "weapon of choice." They are the front line that ensures our freedom. To get -- AND KEEP -- the best, we must invest accordingly.

PAY GAP

QUESTION: There has been a lot of talk about a pay gap. We've heard that, based on service surveys, pay is one of the top reasons that service people give as causing them to leave the service. What's your perspective? Should Congress make an effort to close the so-called pay gap or should any additional funding, if available, be spent elsewhere?

ANSWER: Speaking for Navy's enlisted Sailors, over the last few years, you're correct about pay, and more specifically basic pay, as frequently being the number one reason for personnel leaving the Sea Service, just ahead of family separation. But the Navy's quarterly survey takes an "exit poll pulse" of those members who are transitioning to the civilian community for a variety of motivations. Though this information is relevant, it is far more important to identify and act on the critical concerns of those who remain on active duty--to stay on active duty; that's my most important task as being their MCPON.

As I visit with our Sailors all over the world, clearly their number one concern is "compensation." Today's Sailors are better informed than ever before, and whether they see it in *Navy Times*, *Fleet Reserve Association's On Watch* or *Non-Commissioned Officer's Association's Journal*, they know there's a pay gap of some magnitude. Whatever the magnitude of the "pay gap," they know that ECI minus 0.5% pay raises through FY 99 will only allow the gap to widen further.

Sailors understand it took years for the pay gap to reach its present magnitude and they don't realistically expect a fix to the problem overnight. An important "first step" in that process will be an immediate elimination of the -0.5 percent decrement to our annual Cost of Living Adjustment raises (as recommended by the 7th Quadrennial Review of Military Compensation (QRMC)).

Question: The impression conveyed by the DOD is that the resource shortfalls and readiness problems experienced in FY 94 were a fourth quarter problem exclusively. What is your view?

SgtMaj Overstreet: My opinion of the short fall for the fourth quarter problem is the same problem as we're facing now for the budget: As operations and maintenance continue to mount up all year long, by the time you get to the end of the year, you simply don't have enough money to cover all the needs of the Corps when you take into consideration where Marines are deployed and the frequency which they turn around.

We're doing eventually the same thing today by sacrificing our future for readiness. The only reason why we're world wide deployable with the capable force we have today is because those who went before us executed proper plans! Should we do any less for those who will step up as keepers of the keys? In other words, we can only plan for modernization, maintenance, quality of life and all those areas which control our future if we get enough to at least sustain us for one year at a time. In my opinion, it would be even better if we would plan five years out and not change it that year once it's been approved.

Question: At the beginning of FY 94 were all your requirements for training, maintenance, base operations and quality of life fully funded? If not, what were the shortfalls? Did you begin FY 95 fully funded? Do you anticipate having to divert training or maintenance dollars to other unfunded or underfunded requirements in FY 95?

SgtMaj Overstreet: No, none of these requirements were fully funded at the beginning of FY 94 or FY 95, nor are they currently fully funded.

In the area of training, we received a \$15 million FY 94 Congressional plus up for OPTEMPO which assisted us in funding unit training for the Fleet Marine Forces (FMF); and \$8 million in the FY 94 Omnibus Reprogramming Act for school support. Despite these measures, Specialized Skills Training remained unfunded at the end of FY 94. This training covers courses of instruction required to acquire the requisite skills necessary to meet the minimum requirements of a Military Occupational Specialty (MOS) such as Food Service Basic, Motor Vehicle Operator, and Construction Engineer courses for our Marines.

In FY 95, while unit training at the Fleet Marine Forces is fully funded, we remain concerned about underfinancing of Specialized Skills Training. While Congress added \$9 million specifically for skill progression training as well as \$5 million for friendly fire training, we still remain short approximately \$5 million in FY 95. We have addressed this shortfall in the FY 95 Omnibus Reprogramming Request. All training requirements have been fully funded in our FY 96 budget request.

Depot maintenance was not fully funded at the beginning or end of FY 94. In FY 95, in part thanks to a Congressional plus up of \$57 million, depot maintenance that is executable is fully funded. FY 95, when combined with the FY 96 budget request, will allow us to meet our desired backlog of approximately \$50 million by FY 98.

Base Operations addresses both the cost of running our bases to include operating physical plant, in terms of utilities; organic supply operations; vehicle operation and maintenance; community support services; as well as maintenance of real property. Neither base operations nor maintenance of real property (MRP) was fully funded in FY 94, nor are they fully funded in FY 95; in fact, we remain significantly short of fully supporting these requirements. In the case of general base operations, our FY 95 shortfall is approximately \$74 million for active and reserve forces and MRP is underfunded by approximately \$145 million. Because of fiscal constraints, we

have no plans to reprogram into these areas and, due to fiscal constraints, we expect to have significant shortfalls in these areas in FY 96. We are short approximately \$90 million in base operations and \$176 million in MRP. This is particularly significant in that our backlog of maintenance and repair (BMAR) of our physical plant is growing at approximately \$100 million per year and reaches \$1 billion by FY 98.

Quality of Life was not fully funded in FY 94, nor is it fully funded in FY 95. We remain short in terms of appropriated funds being provided for morale, welfare and recreation (MWR) support. We have a deficit of 7,744 family housing units, we are short approximately 14,000 spaces in our barracks, and we are unable to provide enough personnel support equipment for our Marines. Again, this is due to fiscal constraints. However, the FY96 budget dramatically improves appropriated fund support of MWR and begins to address some of our housing and barracks shortfalls, as well as personnel support equipment requirements.

We will not divert training funds to other unfunded or underfunded requirements in FY 95. However, due to a lack of flexibility, we may be forced to divert maintenance of real property funding to other higher priority requirements. This, of course, will cause an increase to BMAR.

Question: In addition to training deficiencies in non-deployed units resulting from a shortfall in funding, forces employed in support of various contingency operations appear to be unable to meet all of their warfighting requirements.

How has the high level of contingency operations affected your ability to conduct scheduled training?

SgtMaj Overstreet: Unplanned deployments have interrupted training cycles. Because units schedule training well in advance, when a unit is deployed during its scheduled training time, it is inevitable that some scheduled training opportunities will be lost. Funds expended in contingency operations reduce funding available to conduct routine training. Consequently, exercises must be reduced in scope or cancelled if additional funding is not provided.

Question: In addition to training deficiencies in nondeployed units resulting from a shortfall in funding, forces deployed in support of various contingency operations appear to be unable to meet all of their warfighting requirements.

Are you training to your requirements?

Has unit training in war competencies been deferred?

SgtMaj Overstreet: We are training to our requirements; we are not deferring unit training in war competencies. The Marine Corps is committed to adequately resourcing our Formal School Training and Education Program to ensure that our Marines are trained and educated to meet peacetime presence and warfighting requirements. Because of this commitment, we have resourced our Formal School Training and Education Program to meet our training and education requirements. As the Nation's force in readiness, we are accomplishing all training to maintain combat readiness.

Question: In addition to training deficiencies in non-deployed units resulting from a shortfall in funding, forces employed in support of various contingency operations appear to be unable to meet all of their warfighting requirements.

How do you assess the impact of not accomplishing needed training on your ability to maintain readiness for your primary mission?

SgtMaj Overstreet: Marine Corps training emphasis is on the primary combat mission. Most skills needed in various operational deployments are the same skills needed for combat. Although Marines continue to train while committed, most operational deployments do not afford the commander adequate training opportunities to maintain perishable combat skill at desired standards. As a result, continued, long term involvement will eventually erode combat skills (such as marksmanship training and crew-served weapons proficiency) which can have a negative impact on combat effectiveness. The impact of these deployments will vary depending on the type of unit, mission, and duration of deployment. Because individual and unit combat skills can degrade during long-term deployments, we have adopted rotation policies for all deploying forces.

Rotating forces maintains proficiency and morale and ensures the necessary training opportunities to maintain combat proficiency in our primary mission.

Question: Please comment on the affect high PERSTEMPO has on quality of life, morale, and retention. Have current readiness reporting guidelines been modified to recognize the importance of such factors?

SgtMaj Overstreet: The Marine Corps mission encompasses the requirement to provide a global presence that supports our national interests. The Marine Corps accomplishes this task by **regularly deploying** portions of its operating forces -- "its what we do." A Marine's quality of life directly impacts his ability to carry out his job and we owe, to each Marine, the peace of mind that his family is well cared for while he is deployed. He also deserves the assurance that he will come back to suitable living accommodations, and be afforded the opportunity to improve himself through education and physical fitness pursuits. The increased demands of doing business with a smaller force can, and do take their toll on our Marines. We are concerned that the draw down has changed the mind set of Marines to think harder about reenlistment due to the frequency and duration of family separation engendered by continued high levels of operational tempo. Solid quality of life programs--ones that support the military family, provide suitable living quarters, and offer opportunities to advance educational goals and promote physical fitness--enhance readiness, morale and retention and provide a counterbalance to high PERSTEMPO.

The Marine Corps readiness reporting does not measure the effects of a high operating tempo on quality of life, morale, or retention. The Marine Corps utilizes other means to determine the impact that **military service** has on these important elements. Within our manpower process we can observe the impacts **military service** has on our Marines' behavior as it affects attrition and retention. Deficiencies are identified and adjustments are made by managing force policies, the force structure and personnel inventories.

Question: What readiness requirements are not being met due to lack of, or constraints on, resources?

SgtMaj Overstreet: The FY96 budget continues to pay for the "health" of the Corps today; however, the current funding strategy, precipitated by inadequate fiscal resources, forces us to defer investment in equipment modernization and base/station infrastructure. This strategy could ultimately undermine the Corps' ability to meet future warfighting and peacetime presence requirements. A minimum yearly procurement budget of approximately \$1.2 billion is required to ensure adequate equipment modernization, but the annual procurement funding in the President's Budget is less than \$1 billion per year. Base and station operating support costs, such as housing and maintenance of real property, are funded well below actual requirements. At current funding levels, the "health" of the Corps can only be assured through FY97.

Question: If the current pace of operations continues, what do you see that needs to be done to ensure force readiness both in the near-term and long term?

SgtMaj Overstreet: In the short term, we need to ensure adequate O&M funding and obtain timely reimbursement for unscheduled contingency operations. In the long term, adequate resources must be available to support necessary operations and training, investment and modernization programs, infrastructure support, and replenish ammunition stocks.

Question: What have you identified as the units or capabilities most stressed in meeting operational requirements?

SgtMaj Overstreet: The operating forces have, at times, been stretched meeting our operational requirements. Higher demands have been placed on some infantry battalions, aviation squadrons, and support units. Maintenance personnel have also been heavily employed maintaining older equipment that has been used more that expected under routine peacetime and contingency operations.

Question: Are you satisfied that sufficient corrective action is being taken?

SgtMaj Overstreet: Yes, corrective action is being taken. Commanders are managing the impact of contingencies.

Question: From your perspective what are the most serious readiness trends? What needs to be fixed?

SgtMaj Overstreet: We are paying for current readiness, the "health" of the Corps, with funds that we need to guarantee long-term "wellness". Overall inadequate fiscal resources have forced the Marine Corps to adopt a funding strategy that pays for today's demands but severely limits the ability to invest in future readiness. Deferment of procurement actions to replace aging equipment and weapon systems will ultimately affect force capabilities. Infrastructure is being stretched to a point which could adversely impact readiness. Training facilities and supply stocks will continue to deteriorate. The current level of funding can only guarantee the continued "health" of the Corps through FY97.

Question: Based on your long years of service, compare the pace of operations experienced by your service recently with past periods.

SgtMaj Overstreet: The Marine Corps has always been engaged in a high operational tempo during my 29 years in the Corps. Regardless if we were engaged in Vietnam or answering the 911 or simply being the force in readiness off the coast of where ever poised and ready to answer the call. And if you take into consideration the percentage of operating forces which are deployed, "yes" we have always had a high operational tempo but in conjunction with the tempo increasing, we reduced 20 thousand Marines from our ranks which simply increased the frequency which Marines deploy.

In my opinion, we have not seen an increase in disciplinary problems, drug or alcohol abuse, no obvious signs of Marines seeking early release and for that matter, we haven't seen a reduction in our retention. However, we have seen a much greater strain on family particularly nowadays when both of the parents work just to make ends meet.

Question: The pace of operations has placed significant stress on service members and their families. In your opinion, how have those stresses manifested themselves?

- Increased family problems?
- Reduced retention?
- Increased disciplinary problems?
- Increased drug/alcohol abuse?
- Increased numbers of people seeking early release from service?

SgtMaj Overstreet: Unknown as no studies have been initiated.

Marine Corps family support systems promote self-reliance and confidence in Marines and family members through education. Marine Corps Family Service Centers (FSC's) work in conjunction with the Key Volunteer organizations, to ensure the availability of information relative to mobilization and deployment, and to provide support and assistance to members and their families before, during, and after deployment. Every effort is made to provide pre-deployment briefings for all service members and families.

One of many programs offered is Family Life Education, which ensures the availability of educational programs designed to assist families in meeting the special challenges of military family life. These programs assist attendees in developing skills in such areas as communication, relationships, parenting, stress management, sexual assault and rape prevention, and suicide awareness. Family Life Education is a proactive means to try to keep service and family members from experiencing avoidable difficulties, or to help them to deal constructively with difficulties when they do occur.

Personnel tempo and other quality of life concerns obviously have an effect on reenlistment rates. We are concerned that the turbulence of the draw down may be masking a retention problem that has not yet become apparent. However, the reenlistment data to date does not indicate a retention problem in the Marine Corps at the present time.

Question: The impression conveyed by many in the service is that service members are excited and challenged by the high pace of operations, and that the force is standing the stress well. In your opinion, are these perceptions accurate, or do you have concerns that perhaps the force is near breaking?

SgtMaj Overstreet: I suggest a good indicator is the difference between married and single Marines. You can't drive the young single Marine too hard because that's the reason most of them joined in the first place. They want to stay on the go. However, on the other hand, young married Marines will tell you the same thing, but when you ask their wives they will tell you something quite to the contrary. And when you evaluate the overall scenario, the ones who are married are the ones who have the most problems being deployable and are most likely to be returned early from deployments.

JOINT COMMAND READINESS: REQUIREMENTS AND CONCERNS

HOUSE OF REPRESENTATIVES,
COMMITTEE ON NATIONAL SECURITY,
MILITARY READINESS SUBCOMMITTEE,
Washington, DC, Thursday, March 9, 1995.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 2212, Rayburn House Office Building, Hon. Herbert H. Bateman (chairman of the subcommittee) presiding.

STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, MILITARY READINESS SUBCOMMITTEE

Mr. BATEMAN. Good morning, ladies and gentlemen. Obviously, we are sort of in a holding pattern here. I am reminded of the comment I made at the last meeting of the subcommittee when members seemed to be slow coming back from the floor after a vote and I suggested that if this were in the military I could give orders to shoot all stragglers, but we don't operate that way here in the Congress.

We have this morning a conflicting meeting that may have gone later on a couple of fronts, but, hopefully, we will have some members here shortly. I think the best way to expedite our proceeding is to go ahead and get the hearing underway. I will make the opening statement that I was going to make, and I am sure there is nothing in it that my colleagues on the committee will find that compelling, but for the record we will get that out of the way and by then more members will have had a chance to arrive.

The Readiness Subcommittee is continuing its deliberations on the fiscal year 1996 defense authorization bill. Today we are focusing on the readiness of the force from a joint perspective and the readiness of commanders in chief charged with the warfighting mission.

The perspective we receive today is valuable on several counts.

First, Admiral Owens has a respected and unique perspective on readiness in his position on the Joint Staff, his vice-chairmanship of the senior readiness oversight council and as a naval officer.

Our witnesses are on the front edge of organizing for battle in major regional contingencies. They know firsthand of the experience and impact of the humanitarian and peacekeeping operations and how they affect the accomplishment of their primary tasks. They have an appreciation of the value of coordinating deployments on a joint basis and can report to the members on the merits of joint operations.

From the Persian Gulf to Haiti, from Bosnia to Somalia, these commands have demonstrated a high degree of professionalism in the accomplishment of the increasingly varied and challenging tasks that are placed upon them.

The subcommittee is committed to ensure that when our forces go into harm's way they are provided with the best the Nation can provide, and they will be safe and effective if required to enter battle.

Our witnesses today include: Adm. William A. Owens, Vice Chairman of the Joint Chiefs; followed by a panel consisting of Maj. Gen. Marvin T. Hopgood of the Marine Corps, Director of Operations of the U.S. Pacific Command; Maj. Gen. Tommy R. Franks, U.S. Army, Director of Operations, U.S. Forces Korea; Maj. Gen. Joseph E. Hurd, U.S. Air Force, Director of Operations, U.S. Central Command; Rear Adm. James A. Lair, U.S. Navy, Director of Operations, U.S. European Command; and Rear Adm. Thomas B. Fargo, U.S. Navy, Director of Operations, U.S. Atlantic Command.

I welcome each of the witnesses. We appreciate their availability today and the testimony they will provide us.

Before we begin with Admiral Owens' testimony, I would like to recognize my colleague, Mr. Sisisky, the ranking member, for any opening statement he chooses to make.

STATEMENT OF HON. NORMAN SISISKY, A REPRESENTATIVE FROM VIRGINIA, RANKING MINORITY MEMBER, MILITARY READINESS SUBCOMMITTEE

Mr. SISISKY. Thank you, Mr. Chairman.

I join with the subcommittee chairman, Mr. Bateman, in welcoming you to the hearing today. I am certain you are aware that our discussions about the readiness of our forces today and tomorrow are serious business. I take great pride in you who so ably defend our Nation's interests in so many different parts of the world, often with great personal sacrifice. As I said 2 days ago to the services' senior enlisted persons, there is no doubt that you have been good stewards and I congratulate you for what you have done in the past and continue to do.

We have previously heard from the service chiefs and the CINC's. Today, we are privileged to hear your perspective and gain insights from your extensive experiences.

Thank you for coming and I look forward to hearing your testimony and your response to questions from members of the subcommittee.

Mr. BATEMAN. Thank you very much, Mr. Sisisky.

With that, it is my pleasure to recognize Admiral Owens and to thank him for being with us and for his testimony.

Let me say, Admiral, for your benefit and for the other witnesses this morning, that we have each of your prepared written statements which we will make a part of the record. We ask that you proceed with your statement as you want, but to also bear in mind that brevity is not frowned upon in view of the number of people on the panel.

Thank you for coming and good morning.

STATEMENT OF ADM. WILLIAM A. OWENS, VICE CHAIRMAN, JOINT CHIEFS OF STAFF

Admiral OWENS. Chairman Bateman, thank you very much. I appreciate the opportunity to be here. This subcommittee is of great importance to us and your help in keeping our military ready has been notable especially during these times of change.

If it is all right with you, sir, I will give you a short presentation this morning that highlights some of the overview of where we think the critical elements of readiness rest with us in the unified military.

Importantly, Gunnery Sgt. Chris Kresnak is here with me this morning and he is a very important part of our operation, we who are in the J-3 shop in the Pentagon, and he will help me put up these slides this morning.

This is an issue of change that I am here to talk to you about. Sometimes we do not see readiness in the context of change, but that is how we are looking at it in the Joint Chiefs of Staff, and we are serious about the fact that there have been these four major changes that demand more than a routine reaction from us in the military.

The law, Goldwater-Nichols, makes a real difference in the way we look at readiness. I will talk about that this morning.

Clearly, the world has changed and we have to react to it. The budget clearly has gone down and, importantly, there are so many emerging military technologies. This is not a little thing. I think it is a big thing. I think it deals with revolution in the military. There is an element of a revolution in military affairs that is with us if we have the vision to implement it.

I want to talk about Goldwater-Nichols. You know more about it than I do, and you are responsible in large part for Goldwater-Nichols, but just to highlight how we see Goldwater-Nichols as it plays into the issue of joint readiness.

As you know, Goldwater-Nichols established the Chairman as the principal military adviser to the Secretary of Defense and to the President. It established the prominence of the CINC's in operating our forces, and, of course, we have the J-3's, the Operations DEPS for the CINC's here with us today. This is a different kind of approach that you would have had 10 years ago before Goldwater-Nichols.

The Chairman has these responsibilities, but importantly he is to advise on requirements, readiness programs, and budgets. And in that area, until this last year, that has been piecemeal and there has been progress towards this over the last few years since Goldwater-Nichols, but we are genuinely trying to implement this last bullet. So I would like to talk a little bit about implementing change, and again this is the last bullet on the last slide, requirements readiness programs and budgets.

The Chairman does have the responsibility for joint readiness. I will show you how we are doing that. I will show you that the requirements, prioritization, and, specifically, the Chairman submits now to the Secretary of Defense, from him directly to the Secretary, program and budget recommendations for the budget year. That has not happened in years past. That happened for the first time last September.

It is called the Chairman's Program Assessment. It was about 30 pages long. It is budget and program information that deals with readiness, procurement, and various elements that make up the joint warfighting capability of our military forces. Most of those recommendations were implemented by Secretary Perry last year.

I want to talk a little about a new way of looking at readiness. We realize at the Chairman's level that the key is our readiness to fight—as indicated by the five regional commanders-in-chief—and their ability to put things together to make a joint warfighting capability.

There are two elements to this: Unit readiness. This is the traditional thing we have talked about in the past. It deals with the C-rating, C-1 through C-4, that you are well familiar with in the traditional areas. But there is a very important area dealing with these five gentlemen and their bosses, the CINC's, and that is the ability to bring together the joint enablers to make for warfighting and how ready we are to tie those four services together at the right time and at the right place. It deals with strategic lift. It deals with intelligence, surveillance, reconnaissance. It deals with the right kinds of weapons in the right places, et cetera.

We are spending a lot of time looking at that element of readiness, as well as this one, tying it together in a process that gives the Chairman the ability to evaluate readiness, as he is required to do under Goldwater-Nichols.

The way we are doing this is what we are calling the joint monthly readiness report process. Basically this does what the verbiage here says. It takes the service input for the unit readiness issues, the CINC's input, directly. We are doing this monthly, the J-3 and the Joint Staff, General Estes is, together with these five gentlemen as we put this together.

It ties them together, provides an output that is a statement of the Department of Defense readiness, that is, all of the elements of unit and joint readiness. It also gives us some deficiencies which we can then feed back in an attempt to fix them. This is a very important part of our process. I personally spend a lot of my time on it each month. Our J-3, the Joint Staff J-3, and these gentlemen spend a lot of their time getting it together.

The output of this goes to the Senior Readiness Oversight Council [SROC], chaired by Secretary Deutsch and by me as a cochair, to review with the service chiefs where we stand, and including the CINC's inputs I have mentioned to you. That is blessed, the results of it are sent out to the CINC's in a message, and we stay critically on top of these deficiencies as we go through this process. I think this gives us more visibility into readiness than we have had in the past.

Mr. SISISKY. It is done on a monthly basis?

Admiral OWENS. Yes, sir, it is now, Mr. Sisisky. That is not mandated by anybody, but we think for now we need to do this monthly and we will continue to evaluate it over time.

This is a statement in brief of our current readiness. I will not read it to you. I think you will see elements of this as we go through our testimony this morning.

We feel that we are ready today with the first fight in the categories unit readiness and joint readiness, as I have described. Ad-

ditional contingencies do concern us. We are able to manage where we are today, but we keep a critical eye on this as we commit forces to a contingency. They may not be as ready to move to a MRC, for example, and we have to be careful in managing this. It is a part of the managing of readiness that we have not had to do before.

I will talk about some of these areas. Clearly, your help with our supplemental is very important to us. We appreciate that very much, and we look forward to that being approved by the end of March as a critical element of making sure we stay ready. Our people and I will say a few more words about that and I will talk about these other issues a little bit as I go through here.

Now, I want to make the point that joint readiness is not only unit readiness and joint readiness as I described, it is also current readiness, which is all I have been talking to you about this morning, and long term readiness. Long-term readiness gets into what kinds of things do we need to buy, how do we recapitalize the military, how do we modernize the military, and how do we see the four services coming together. This is Goldwater-Nichols, in its essence, and we have looked at this through the Joint Requirements Oversight Council [JROC], which is chaired by me under Goldwater-Nichols, and the four service vice chiefs make up the JROC. We spend a lot of Four Star time on this. We have not done that in the past. We spend 30 hours a month on this process talking about these warfare areas across the four Services, including various agencies and organizations as part of this work.

We have been doing this for about a year. There is a lot of very good information in this process. We tie it together in the Chairman's Program Assessment and I get on an airplane with the four vice chiefs and go and visit the CINC's. We have done that in the last month, to go to each of the CINC's at their headquarters and spend an entire day with the CINC and his staff to talk about warfighting in the future and modernization and recapitalization and what is bothering the CINC's in terms of their future readiness, which is really future capability.

So, we are spending a lot of time on future readiness as represented by the JROC's joint warfighting capability assessments.

I don't want to shock you with this, but I wanted to give you an example of some of the things that we have done in the JROC.

Mr. BATEMAN. It looks like electrical circuitry. I don't understand those either.

Admiral OWENS. I won't give myself a test on this afterwards.

Let me comment, sir, that on the left are some billion dollar systems. We have spent a lot of money on these systems. They are legacy systems. We own them today. They have been built and pre-conceived pre-Goldwater-Nichols.

Our effort in JROC, for example, is to try to figure out how these billion dollar systems connect with our four military services. That is a very complex question. This chart is not as complex as it needs to be to tell you about data rates, about data formats, about frequencies, about the bandwidth, et cetera. You have to look at those things if you are to understand how these systems connect with the four services and the details of their headquarters' kinds of equipment on the ground, at sea, or in the air.

What we have done is undertaken a fairly significant evaluation of this at the four star level. It gets a little detailed sometimes and, in the end, the red are not connected today. What that means is that these billion dollar systems cannot become read out in the command centers as indicated. The red lines do not exist today. They need to exist and you can fix this problem for \$40 to \$80 million.

We are trying to scope the exact cost, but it is a statement that billions of dollars of systems representing an awful lot of information need to go to all four services and we need to look at these things in a joint way. That is one of the things we have done here. We think we have a good answer for this and it is a part of the Chairman's Program Assessment recommendation.

I talked to you about this. We actually get on an airplane and go visit the CINC's. We have done that recently, and these are very good discussions for us.

Now, I want to talk about the three things we believe are critical for our long-term readiness, and they are as indicated here. We think principal elements of support for our people are these three things. We need to compensate our people. We need to keep faith with them. A cost-of-living pay raise every year is very important. We need to commit to it from our standpoint.

You have been very helpful in this in times past, but we need to commit to it because it is the element of support for our troops.

Likewise, stable medical benefits for that 19-year-old wife who is at home with a husband in Iraq or in Cuba or wherever. We need to make sure those medical benefits are stable and, likewise, a stable retirement system. An expectation of a retirement system that they can depend on.

Housing is a fourth priority here.

There are many other elements of quality of life that I have not mentioned. It is not to say that they are not important, but we in the four star military—all of the CINC's, the JROC, and the four service chiefs—think these three priorities are the highest priorities for keeping faith with our people.

I want to talk about modernization and recapitalization. This is a history of procurement. This does not include S&T; it is purely procurement.

The 1995 level is at \$39 billion. This is a post-cold-war low. There are two things to be said about this. One, it is a low and, two, if you had looked at what was expected to be in the procurement budget about 2 years ago, in 1995, it would have been much higher, by perhaps \$20 billion or so. So the expectation in 1993 of procurement in 1995 was much higher than this.

As we look at procurement in the outyears, we project it going up. We also recognize that that will be very difficult and we do not plan on a larger defense budget. We think that would not be responsible, and so the likelihood that this will go up is questionable. We are concerned about that.

This \$39 billion in procurement dollars represents our ability to recapitalize our military, to modernize it. It is a very important element of the industrial base and we think that it is a critical element of long-term readiness, that capability for the future.

I want to talk about another area that we think is an element of readiness for the long term. This is the current backlog of facilities and family housing. It is hard to say that it is directly related to readiness, but you start to realize when it gets to a level we are not quite sure of, it does start to have an impact on readiness.

The quality of life issues are clear, but it also has an effect on readiness in buildings that we use for training and other kinds of facilities. This backlog is scheduled, to go up as it shows, and this is a significant amount of money, almost \$12 billion by the end of 1997. So we think this family housing and facilities backlog is a problem we must give a lot of attention to and manage as we look to the future.

And, finally, the process continues. We are spending a lot of time on warfighting capabilities—readiness. I think there are some real promises in technology here. I would like to spend a minute talking to you about how we see that. I will give you just one example. I believe there is the promise that we might have a lot of battlefield knowledge in the future.

We have not been very good in the past at looking at how the systems of systems fit together to give us battlefield knowledge, but I predict in about 2005, using the systems that are already in our budget, systems that we are planning like the JASA architecture, the space-based IR architecture, the UAV's, the improvements to the U-2's, the SYERS, and the EOIR sensors, and the real-time downlinks, if we put all of those systems and many others that I have not mentioned together, and then look at the communications that will allow us to transmit that information real time to the warriors in the four sServices, we will have close to dominant battlefield knowledge of a large battlefield.

Not a battlefield like we see it today, but perhaps a battlefield as large as 200 by 2,070 miles. And if we have that, we have a lot of weapons that can deal with that battlefield; weapons like T-LAM Block 3 and Block 4, ATACMS, a wonderful missile system the Army has designed and built that you are familiar with. Basically, it is the American scud except that every time you hit the button it goes where you want it to go and it goes with great lethality when it gets there. In the future, in the form of BAT submunition.

So you can deal with this dominant battlefield awareness in exciting new ways with lots of new weapons, and there are many of them, sensor-fused weapons in the Air Force would make a real difference in this battlefield JDAM, JSOW, et cetera. Tying together these systems of systems will give us a lot of prominence in the future in dominant battlefield awareness and in the ability to put those precision weapons to target.

A lot of this comes together in our assessment process. We spend a lot of four star time talking about this. We have not spent so much time on it in the past. We are directly linked with our five CINCs talking to them at the four star level and we think that this will help us to maintain near-term readiness and long-term readiness. We are committed to doing the best we can with this.

That concludes my statement, sir.

Mr. BATEMAN. Thank you very much, Admiral. That was very interesting and very helpful.

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SUBCOMMITTEE ON READINESS

STATEMENT OF

ADMIRAL WILLIAM A. OWENS, U.S. NAVY

VICE CHAIRMAN

OF THE

JOINT CHIEFS OF STAFF

BEFORE THE HOUSE NATIONAL SECURITY COMMITTEE

READINESS SUBCOMMITTEE

JOINT COMMAND READINESS: REQUIREMENTS AND CONCERNS

MARCH 9, 1995

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SUBCOMMITTEE ON READINESS

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The Challenge of Change**Joint Readiness
and the
Readiness Assessment Process*****Admiral William A. Owens***
Vice Chairman of the Joint Chiefs of Staff**Briefing for**
HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
9 March 1995

UNCLASSIFIED

**STATEMENT OF THE VICE CHAIRMAN OF THE JOINT CHIEFS OF
STAFF BEFORE THE HOUSE NATIONAL SECURITY COMMITTEE,
READINESS SUBCOMMITTEE, MARCH 9, 1995**

Thank you, Mr. Chairman, for the opportunity to appear before you today.

As the Chairman of the Joint Chiefs of Staff testified in his Posture Statement before you last month, our military is ready to fight and win as called for in the National Security Strategy. Our readiness is due in large measure to the outstanding caliber of the men and women in our armed forces. You know how admirably they have performed in recent deployments to Haiti, Rwanda, the Persian Gulf, Somalia, and around the world. They remain our greatest asset.

The readiness of our "first-to-fight" forces to execute the requirement of two major regional contingencies occurring nearly simultaneously remains high, while the readiness of the overall force is stable at levels near those of the last ten years.

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CURRENT READINESS TO FIGHT

- **WE ARE READY TO EXECUTE THE NATIONAL STRATEGY**
 - Forward deployed and "first-to-fight" readiness is high
 - Additional unplanned contingencies increase near-term risk
- **CONTINUED READINESS TO FIGHT DEPENDS ON:**
 - Adequate / stable funding of readiness accounts
 - Commitment to a quality force (pay, QOL accounts, recruitment)
 - Investments in force enhancements (Strategic Mobility, PGMs)
 - Rapid restoration of funds and WRM resources expended for unplanned contingency operations

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The continued readiness of our forces to meet this strategy depends on adequate and stable funding of our readiness accounts; commitment to a quality force; investments in force enhancements and modernization; and rapid restoration of funds and War Reserve Material resources expended for unplanned contingency operations.

IMPACT OF UNPLANNED CONTINGENCIES

Some segments of our capabilities were vigorously challenged in 1994. Several contingency operations erupting at the same time disrupted the Operations and Maintenance funding plans of the Services.

Our requirement to respond to events in Haiti, Korea, Rwanda, and Cuba occurred later in the fiscal year, when there was little flexibility remaining in the O&M accounts. These contingencies stretched our capacity to meet the requirements placed upon us and still have the funds and time to train our people and maintain our equipment.

The impact of unplanned contingencies on our budget cannot be overstated. In Fiscal Year 1991, we spent about \$600 million on contingency operations from an annual budget of \$276 billion. In Fiscal Year 1995, we expect the unbudgeted costs of contingencies to be about \$2.5 billion out of a DoD budget of \$252 billion. This equates to a four-fold increase in contingency costs while the DoD budget has been steadily decreasing. It is not possible to absorb these costs without disastrous impacts on our programs, which are already stretched as a result of the overall budget decrease.

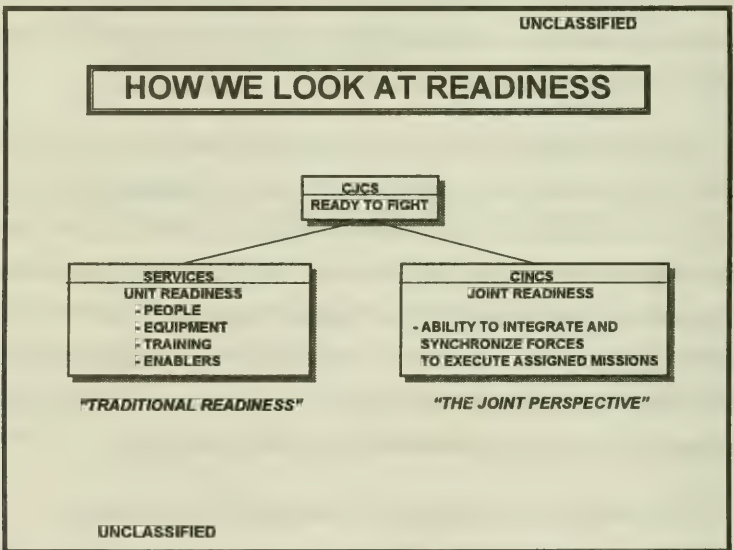
With final approval of the supplemental, we expect to be able to recover and maintain our current readiness at acceptable levels. To help prevent a recurrence of the problems we encountered in 1994 as a result of the way we now obligate Operations and Maintenance funds for contingencies, Secretary Perry has asked Congress to establish a readiness preservation authority. This authority will allow the Department to maintain readiness while mitigating the impact of funding contingency operations that occur late in the fiscal year.

The cost of participating in a number of unprogrammed contingencies goes far beyond dollars, however. The impact of the current high pace of operations is training opportunities lost, equipment not maintained, and quality of life impacted for the service members as well as the families that are left behind when the unit is deployed.

As we continue to react to unplanned contingencies around the world, we must carefully assess and track the fiscal impacts of these contingencies, and on the readiness of our units, and not forget that there is a quality of life impact as well.

READINESS DEFINED

You have asked me to discuss with you today the process that we use to measure the readiness of our forces. The key to understanding our readiness assessment process is to first understand our definition of readiness.



Readiness of U.S. military forces to fight and meet the demands of our military strategy is the synthesis of two distinct but interrelated levels of readiness: Unit Readiness and Joint Readiness.

Unit Readiness is the ability to provide capabilities required by the CINCs to execute their assigned missions. This is derived from the ability of each unit of each of the Services to deliver the outputs for which it was designed.

Joint Readiness is the CINC's ability to integrate and synchronize ready combat and support forces to execute his assigned missions.

These definitions are key because they delineate the responsibilities of the Chairman of the Joint Chiefs of Staff, the Chiefs of the Services, and the CINCs in readiness assessment.

THE STATUS OF RESOURCES AND TRAINING SYSTEM

Today the Joint Chiefs, the Services, and the warfighting CINCs are monitoring and assessing our readiness posture more closely than at any time in recent memory.

In the past, we relied heavily on the Services reporting of "SORTS" information, the Status of Resources and Training System. The product of SORTS is a numerical "C-rating", that you may be familiar with -- for example in the "C-ratings" of the three Army Divisions that was widely discussed in the press late last year. Though some equate SORTS C-ratings with readiness, in fact SORTS is not a comprehensive readiness measurement system.

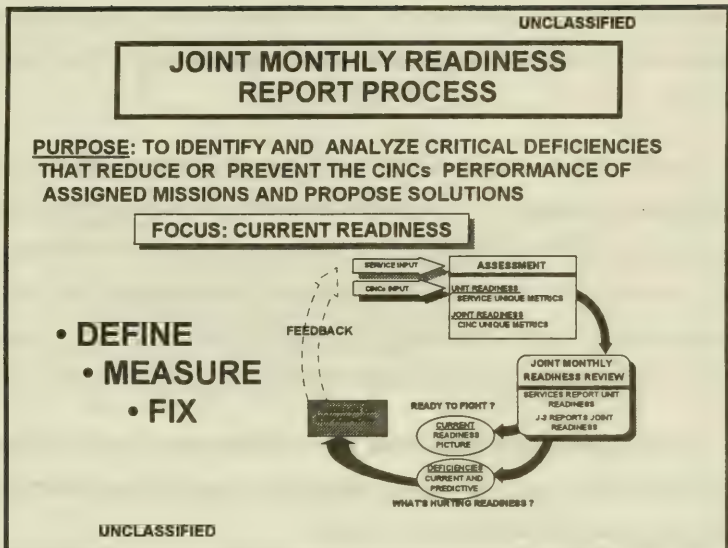
What SORTS provides is a current snapshot on a select slice of readiness information in three critical unit resource areas: Personnel, critical equipment fill and its state of maintenance, and the unit Commander's assessment of his training preparedness to meet his primary combat mission.

There are many things that SORTS does not directly measure. SORTS does not measure quality of life issues, impact of funding and policy decisions, impending equipment changes and modernization, ability to perform special or nonstandard missions, and participation in joint and combined exercises. SORTS does not measure future readiness; it is not predictive.

It is fair to say that a unit that has a high C-rating in SORTS may not be ready for a particular peacekeeping, humanitarian or other mission that is different from its primary mission. But, a low rating in any of the SORTS rated areas is a warning flag that the unit may have difficulties meeting the primary combat mission for which it was designed.

JOINT MONTHLY READINESS REVIEW (JMRR)

To look beyond the traditional snapshot that SORTS provides, the Operations Deputies of the Services and I conduct a Joint Monthly Readiness Review to assess our current joint readiness. The Joint Monthly Readiness Review, which we call the JMRR, is a recurring readiness process to review the status of unit and joint readiness.



The purpose of the JMRR is to identify and analyze critical deficiencies that may reduce or preclude a CINC's performance of assigned missions, and to propose solutions for the deficiencies discovered.

In the JMRR, the Services describe current force commitments around the world and the current and projected level of readiness of their units. We ask the Services to project their readiness to a six and twelve month outlook, recognizing that with the rapid pace of world events and our requirement to participate in them on short notice, such projections are necessarily subjective. Significant Service readiness trends are highlighted at each brief.

The JMRR also includes each CINC's assessment of his ability to integrate and synchronize forces provided by the Services to execute his current and projected requirements. The CINCs assess eight Joint Warfighting functional areas. These are: Mobility; Intelligence,

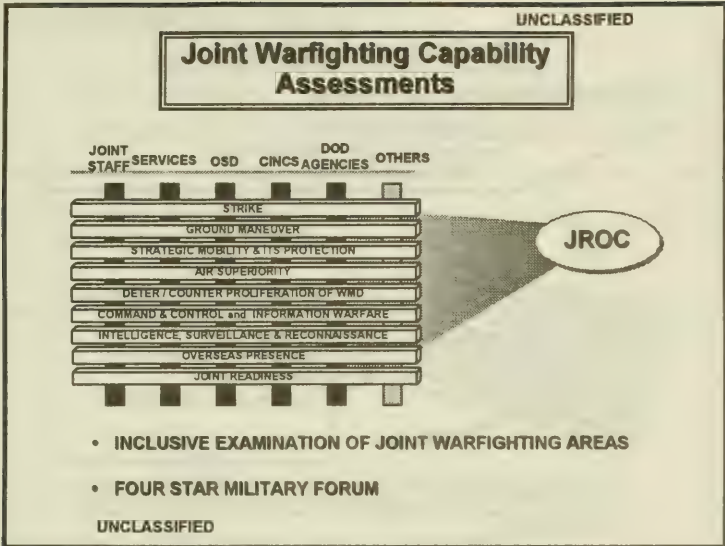
Surveillance and Reconnaissance; Joint Headquarters Capability; C4; Logistics and Sustainment; Special Operations; Infrastructure; and Joint Personnel.

The JMRR also requires the Services and CINCs to assess current and near-term readiness to execute the two major regional contingency scenario from their respective unique viewpoints. It is an evolving process, but to date the benefits derived are considerable. We focus the senior leadership on the pressing, immediate readiness issues, and together we determine where to place additional emphasis and resources.

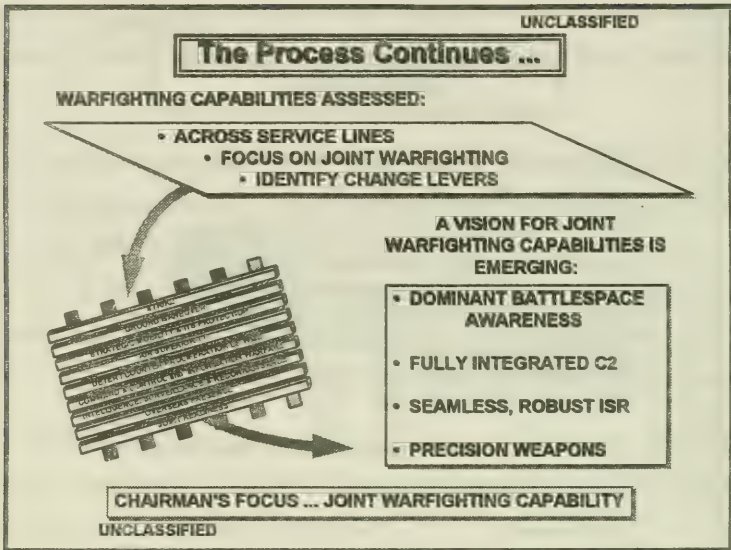
The Service Chiefs and I brief the JMRR to the Department senior leadership in the Senior Readiness Oversight Council, co-chaired by the Deputy Secretary of Defense and myself.

THE JOINT REQUIREMENTS OVERSIGHT COUNCIL (JROC) AND THE JOINT WARFIGHTING CAPABILITY ASSESSMENTS (JWCA)

We are addressing the readiness and capabilities of our future force through the Joint Warfighting Capability Assessments, which we call JWCA. Just as the JMRR fills the need for a recurring analysis of current readiness and near-term readiness projection, the JWCA, under the purview of the expanded Joint Requirements Oversight Council, or JROC, includes a systematic analysis of the readiness of future forces. That is, we try to assure that as we recapitalize and build the forces that the nation will rely upon in the future, our future forces will maintain the capability to win.



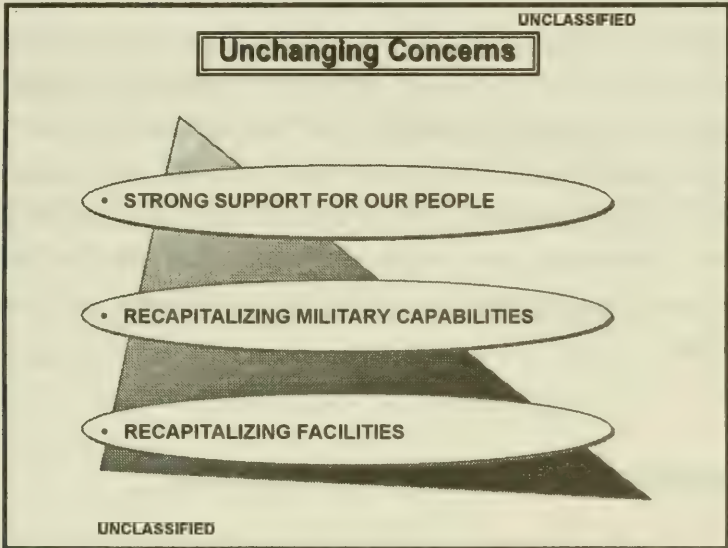
The JROC, with membership of the Vice Chiefs of each Service and myself, performs mission need review, validation and prioritization of requirements, and determines the best placement of our scarce dollars and resources. Established by Goldwater-Nichols in the mid-1980s, the JROC is now designed to provide a senior military perspective on what the nation requires for national defense, and, in particular, to judge whether various major weapons, weapons systems, and other military capabilities are actually required.



To make these kinds of judgments, the JROC considers underlying elements of future U.S. military functions and needs that are the foundation for talking sensibly about military requirements. Since being appointed to my present position a little over a year ago, I, the Vice Chiefs of the military services, and the Joint Staff have spent a considerable amount of time reviewing our joint warfighting capabilities within the JROC. We have engaged the Unified Commanders in our discussions, as well as the Chairman and other members of the Joint Chiefs. The JROC, in short, has become one of the real centers of thought, discussion, planning and debate with regard to what requirements for our nation's military forces ought to be in the foreseeable future and how we can assure our forces remain ready to meet the demands of future contingencies.

SUSTAINING FUTURE READINESS

The key to maintaining current readiness, and ensuring our future readiness to fight, is first to make sure that we recruit and retain the best people. To do this requires our continued commitment to adequate pay, medical and retirement benefits. This must remain our number one priority.



Future readiness also depends on sustaining a satisfactory level of major equipment and facility maintenance. Our facility maintenance accounts have been consistently underfunded over the past few years, and a backlog has grown. Military installations are key enablers for power projection. As the backlog increases, facilities deteriorate and the cost of repair increases. This deterioration increases the risk of unacceptable mission interruption and jeopardizes future readiness.

Lastly, but certainly a most critical element of future readiness, is funding for recapitalization, modernization and force enhancements.

The core philosophy that guided the Bottom Up Review was to balance our strategic requirements against a shrinking force. The BUR force levels that we are moving toward are predicated upon force enhancements to compensate for reductions in numbers of units. More strategic lift; more long-range precision and smart munitions; more prepositioned sets in selected forward locations; improved and expanded command and control, communications, computers, and intelligence. These enhancements have to be fielded. Making our forces more deployable, and more lethal and capable once they arrive, allow our reduced force levels. To accept the force decreases that are already in progress and will be completed by 1997, without procuring the enhancements upon which the force reductions are based, place our forces at unacceptably high risk at the turn of the century. We cannot afford a tendency to push modernization programs down the road year after year through a process of new delays, stretchouts, and schedule changes.

THE JOINT READINESS ASSESSMENT PROCESS

To summarize the readiness assessment process, then, readiness consists of **Unit Readiness**, which is assessed and reported by the Services, and **Joint Readiness**, which is reported by the CINCs, and is collated and reported by the Joint Staff. The critical Joint Monthly Readiness Review and Senior Readiness Oversight Council are our vehicles for the current and near-term readiness assessments, and the Joint Requirements Oversight Council and Joint Warfighting Capabilities Assessments provide for our future capability (readiness) needs. These assessments are reviewed by our four star senior leaders, who proactively work to ensure that deficiencies discovered in near term

readiness or long term capability gaps are pursued until adequately addressed and a solution is properly applied.

CONCLUSION

We have sufficient systems for tracking and reporting readiness status, and for raising readiness issues and problems to the highest levels for resolution. What these extensive and focused periodic reviews indicate to us today is that the readiness of our forces that would be first in the pitch of battle continues to be high, and that the near-term readiness of all of our forces is near historic levels. Our people are our greatest asset, and our continued support for them is paramount in ensuring our continued readiness.

For our long-term vision, we are likewise ensuring that the dollars and effort we expend for new systems will not build a hollow force, but rather that our future fighting force will remain ready.

Mr. BATEMAN. Let me begin the questioning by asking you to clarify something for me. You made reference to the Chairman of the Joint Chiefs responsibility for an alternative program recommendation. I understand that terminology but I am not sure alternative to what, since my assumption or understanding is that he is involved in the presentation of the budget that we receive. If that is the case, what is the alternative that he is allowed to or expected to present?

Admiral OWENS. Yes, sir. Well, of course, there are many parts of the Department of Defense who submit their budgets in various stovepipes. The services are four of those stovepipes. The Joint Chiefs of Staff and the Chairman and I, and the Joint Staff participate, to some extent, in the end game of those four submissions. But there are many other submissions as well; DISA, DNA, DIA, DSAA, et cetera, and all of those have particular war fighting impacts.

When we look at all of those budgets through this process, we attempt to envision how all of these things come together and the Chairman has the ability, through the Chairman's program assessment, to then submit as alternatives to elements of the budget that has been submitted via the stovepipes his recommendations for a better joint warfighting capability.

For example, last year there was an opportunity for us, in the Chairman's Program Assessment, to make a strong case for TADL-J data links. It is an important part of combat ID, an important part of situational awareness, and that recommendation was made in the chairman's program assessment.

We made a strong recommendation for the cost-of-living pay raise. That was not in the long-term budget. And Secretary Perry, as you know, was very forthcoming in approving that and making it his policy. And there were many other recommendations that were approved as part of that effort.

We hope that as time goes on, because all the vice chiefs are involved as we go through the process, more and more of the work of the JROC and this effort will be incorporated in the service and the agency budgets as we go along.

But this is a journey, Mr. Chairman, and for the four star military I think we have to be directly involved in helping to realize where we want to go with this and making our recommendations directly to the chairman. Goldwater-Nichols allows that, which I think was a very wise way to allow us to have an input without going through various layers.

Mr. BATEMAN. You made reference to your joint monthly readiness report, the way that is developed, and the significance that is attached to it. When you receive it, I assume that you are dealing in a more macrolevel of divisions, wings, battle groups of the Navy, and yet somewhere at some level you have to do it by platoon or you have to do it by squadron and so forth.

I assume that is taking place, but I would be curious, if you have a division and two elements of it are unready and the rest is superbly ready, how is that measured or what impact does it have at the level where the CINC's and the Joint Chiefs have to start making judgments?

Admiral OWENS. Yes, sir; it is not a clear distinction. If you are talking about a division versus a company, then clearly, the division commander has oversight over that unit readiness of his division and he will assemble the various judgments of his commanders inside his division and make that a part of his unit reporting.

However, sometimes there are elements of much smaller unit military forces that we are looking at. For example, you find that AWACS are particularly overtasked in this new world; that we are flying the wings off the airplanes and we do not have enough crews to make the kinds of commitments without keeping those crews gone much more than the Air Force would like them to be gone, about 120 days a year. So, with the CINC's, we have been looking at that requirement. AC-130's, MP's, for example, engineers are in the same category. So we do get into some of the individual kinds of issues as part of this work.

I think my colleagues here will be very anxious to talk to you about some of those elements, but we are very much into elements when it is of concern to the CINC. For example, specifics of ground stations for downlinking imagery is a concern for CENTCOM. And so we are into what does that mean? How do we fix that? Or do we have enough sensor packages for the U-2's in CENTCOM or in Korea and we have been into those issues.

So we are into specifics, but not into all specifics, as you know. It is a very large team, and we are trying to do it in a way it is most meaningful.

Mr. BATEMAN. Let me make a brief comment about the outyear procurement and the nadir that this budget cycle represents. It is bothersome to me, and I suspect to a number of my colleagues, that in the political process it is very easy to talk about outyear increments of something because you do not have to vote funds and what have you to do it.

I am concerned as to whether or not the administration, the now or future administration, is going to have the will to do the advocacy job that makes it easier for us to provide those procurement dollars, because sustaining or maintaining any level of readiness is going to be absolutely dependent on whether we do that, because you cannot recapitalize our Armed Forces, any of them, on the budget profile of today.

Housing backlog. You have put some emphasis on that, and I think properly so. It is curious to me, though, that you take your chart—I assume this is a housing inventory and the backlog of housing that is needed. I think your chart started in 1985, and it is going up like this, indicating greater and greater need as you go through 1997, and yet from 1985 until now the number of people you needed to house has been going down like this.

I think there is genuinely a housing problem out there, but you would think that the chart ought to look differently than it does in view of the downsizing that has taken place, unless there has been an incredible amount of diversion of funds that might have been used for upgrading housing being used for other purposes.

Admiral OWENS. Mr. Chairman, I think you are right. This is an interesting question. I want to make sure you understand that I am not just talking about family housing here. I am talking about all military facilities so I am talking about buildings.

Mr. BATEMAN. Broader than housing, then?

Admiral OWENS. Right. Much more than housing. As a matter of fact, I think housing would be less than half of this total pot.

Housing is a very important issue, but the issue here is maintaining the repair of the facilities we have, and I think it is of concern to our CINC's. It is of concern to our services whether it is a training facility, whether it is the headquarters facility, whether it is barracks or housing, the whole maintenance and repair of facilities is the subject of this.

Specifically, with regard to your question, of course we have downsized the military significantly. I think the size of the number of people is down about 30 percent at this point. Also, the bases have shut down not only in this country but also overseas. The Army and the Air Force in Europe have shut down a large number of facilities. So it is an organization in transition. There is no doubt, however, that housing is a very important area that we need to put a lot of focus on.

Mr. BATEMAN. You spent some time, and again properly so, on battlefield knowledge, battlefield awareness, and a myriad of systems that are out there.

I take it you have the hardware, you have in place the systems, and that we are talking about ways to get the data from the systems to where it is most useful. I would hope that is the less expensive part of the problem, and I suspect there have to be some upgrades in equipment, but is this largely a programmatic problem as opposed to a hardware procurement kind of problem?

Admiral OWENS. I think, Mr. Chairman, this is a very important area of discussion and I will try to respond without being too detailed. I think it is not just an organizing, or training, or doctrinal kind of thing, and it is not just a matter of data links like the chart I showed you that was one little example. It is the realization that we have not been very good at bringing commercial technologies into our business. I have spent a lot of my time personally going out and visiting some of the major defense contractors and nondefense contractors in this country to talk to them about their technologies and what they are doing with it. So that the wonders of a global cellular telephone network that will give you the location of every person who has a handset via GPS, for example, can result in some tremendous leverage for the U.S. military. The wonders of a CNN Ted Turner, Tom Johnson kind of direct broadcast satellite technology that goes to 18-inch dish antennas and brings wide band knowledge to the battlefield is a very important element of this dominant battlefield awareness.

The awareness of the global fiber optic net is very surprising to me, but by 1998 most of the world's cities will be linked with fiber optic cable. That means that 1,000 to 10,000 times more data will be able to be dispersed around the world, and we need to link into that. We have not been well organized to realize those kinds of commercial technologies. We need to be much better at that.

There is also the element of organizing intelligence and surveillance assets that have not been looked at as a system of systems. We have looked at them as black satellites or white satellites. We have looked at them as pockets of reconnaissance equipment like the Air Force or the Navy or the Army. What is important is to

bring together all of those assets, and new ones in the future like JASA, a spaced-based IR and UAV, to make sure we are aware as war fighters of the jointness of these systems.

For example, most naval officers do not know about guard railing. It is a very important electronic warfare battlefield system for the U.S. Army built around the C-12 aircraft and a very good sensor system. Most Army officers do not know about the Navy ES-3A. It is an important electronic warfare aircraft that can be used in the battlefield. There are many examples of this, but we need to understand those things and then, as I showed on that chart, we need to make those downlinks from those aircraft so that we are able to use the information.

In Somalia last week we were receiving from a Navy aircraft that was flying in the area to the marines on the ground real-time video of the streets of Mogadishu. That is the kind of stuff we want to do because it is real. We have to make it happen. It has not happened as well in the past as it should. So this is a very complex area. I don't want to dwell on it unless you want me to, but we are trying desperately to understand it. It is a part of American technology that will give us great leverage and we are convinced that it will give us dominant battlefield knowledge.

Mr. BATEMAN. Well, that is helpful, at least, to this member of the committee.

The followup question, and I will ask that, is does the 5-year defense plan, in terms of the budget, reflect what you are going to need to do to accomplish the objectives that you just spoke to?

Admiral OWENS. In our—

Mr. BATEMAN. Is that going to be an alternative proposal of the Joint Chiefs?

Admiral OWENS. Many of the elements of it, sir, will be a part of our 1997 work. We have been out with the CINC's, as a matter of fact, talking about some of these elements just in the last month. But, for example, different sensor packages for some of these very important UAV programs are not presently in the budget or the program that you have before you. That could very well be a recommendation in the chairman's program assessment this year. There may be some elements of combat ID that will be a part of the Chairman's program assessment that are not presently in the budget. So I think this is a journey, sir. We are learning a lot as we go through it.

We have not represented all that needs to be done because we do not understand all that needs to be done, but we are trying hard to stay immersed in it and we are getting, I believe, smarter together. I would urge you to ask my friends here who will tell you the truth, of course, about how they feel about this effort. But I think it is a very important part of our military capability.

Mr. BATEMAN. OK. Mr. Sisisky?

Mr. SISISKY. Thank you, Mr. Chairman. Welcome, Admiral Owens.

Admiral OWENS. Thank you, sir.

Mr. SISISKY. I would like to tell the members of the committee that I probably spent more time with Admiral Owens than any other military person in my 12 years in Congress. We have not always agreed, but I must admit publicly that he was right more

than I was right. I am sure your staff knows that you do not work too hard, you only work 12-hour days now. I don't see them smiling. You're probably one of the hardest working men at the Pentagon.

Just to follow on what he was talking about. Intelligence. I remember doing a report on Desert Storm on the intelligence thing. We had pretty good intelligence. The problem is that it always came through Washington and then back. I hope that you followed our recommendations, not that we are warfighters, but the battlefield is where the information should be gotten without going to the Chairman and everybody else before it gets back to the battlefield. That is all I have to say about that.

But we are talking about readiness, everybody is talking about readiness, and I have gotten so much readiness, C-1, 2, 3, 4, that I didn't even know existed before this year.

I noticed in your prepared statement you note that the readiness of our first-to-fight forces to execute requirements of two major regional contingencies occurring nearly simultaneously remain high, while the readiness of the overall force is stable at levels near those of the last 10 years.

For the record, Admiral Owens, what are the long term joint readiness trends as seen from your position on the Joint Chiefs? Everybody says we are fine right now, but what is your view as to the long term?

Admiral OWENS. Well, sir, of course it depends on how long term you want to go, but let me talk a little bit about it. If we do not have a modernization—if we do not have a procurement line—that allows us to maintain the industrial base and to procure enough to recapitalize the capability, eventually our capability and, therefore, our readiness will degrade significantly.

If you look, for example, at Army helicopter inventory, you would be quite concerned when you get out 10 or 15 years that Black Hawks are not coming off the line as you get out 15 years, the Hueys that have been life extended start to fall away, and the inventory of helicopters in the Army goes way down.

If you were to look at the number of tactical aircraft that we are buying, of course the Navy is buying a few and is bringing the F-18 program up, and we hope that the Navy will buy enough of those, perhaps up to 48 a year here within a couple of years, and that will be enough perhaps to recapitalize the Navy.

For the Air Force, the F-16, F-15, the Strike Eagle replacement is not apparent until JAST comes along. So JAST is a very important aircraft program for the Air Force, for the Navy, for an F-18 follow-on and for the Marines for a Harrier follow-on. If we do not get money in the procurement for these programs, then the recapitalization of 20 fighter wings will be a real challenge. So JAST has to come. We have to devote the money to it. It has to be there for the three services, otherwise recapitalization of those three services will not occur.

The Marines, of course, the medium lift requirement is a significant one and the H-46 fall off the end of the world, so we must have the money to recapitalize there.

There are many examples of this. You and I, sir, have talked about the recapitalization of carriers and the importance of doing

that. The recapitalization of the amphibious force around the LSD-41, LPD-17, and LHD-7, et cetera. We have to look at each of these lines and make sure we are doing that, and if we do not, then we will start to become less and less ready as we get in the out-years, and I think that is a significant threat for us.

Mr. SISISKY. Basically, you are saying that the key is right here in the \$39 billion. If we do not get that figure up, then we are in serious trouble on readiness. It is not just how you evaluate a division, whether it is C-1, but without the equipment, I am talking about 4 or 5 years from now we are in serious trouble.

Admiral OWENS. Sir, I think it is true. I think Secretary Perry clearly understands that we must make that line go up. As difficult as it is going to be, that procurement line has to go up if we are to recapitalize. Even if we recapitalize ship by ship or airplane by airplane, but recapitalize capability around things like dominant battlefield awareness. That procurement line has to go up in order to maintain anywhere near a Bottom-Up Review sort of force structure.

So it is a long-term modernization, recapitalization issue, and it is also the business of facilities maintenance, which starts to become readiness when buildings and facilities start to become—

Mr. SISISKY. We have always had that problem, Admiral Owens, even when we had the big buildup. The Navy wanted to put steel on the water. We will let the buildings go for another year. And the Army wanted to buy more tanks. So we will always have that problem unless you absolutely say you have to fix that infrastructure.

Admiral OWENS. Yes, sir, I think we have always had the problem. I guess I would highlight here that the problem is getting worse, especially as you see it as a percentage of the amount.

Mr. SISISKY. Absolutely.

One other thing which is important to me, you, and everybody else talked about the supplemental. I tried 3 years ago to get a response fund. It did not succeed, and I doubt really doubt whether something like that, emergency supplemental fund, is going to work either. But I don't know. Obviously, we need funds to support unplanned contingencies somewhere.

How would you suggest the Congress fix this budget problem that we have? I am sure you have had to think about it.

Admiral OWENS. You have never been short of difficult questions, Congressman.

Mr. SISISKY. What is the way to do it? I had people in from the Pentagon yesterday, and my first thrust was to say, what are you guys thinking about? Somebody has to be thinking. We cannot go through this exercise. We cannot plan our contingencies to happen in the first quarter of the fiscal year. If it happens in the last quarter we are in trouble. That is nuts.

Admiral OWENS. Yes, sir, as you well know, last year it really was a problem in the last quarter when it happened.

I, of course, have some personal views on this. What is clear to me is that something needs to be done to provide the authorization to allow us to spend the money to maintain readiness as a result of the contingencies that we are undertaking when we are directed to do so. And so, I think it really is a requirement that we do that.

It is disruptive, clearly to readiness, if we do not have that kind of a plan in place, but it is also disruptive if then the money is taken in rescissions. So the program is affected, and the balance of the program is affected and the scrub that has gone on, not only in the normal process but this too is affected when we are involved with large rescissions to pay for the contingencies.

I think that is a real problem. Of course, it is a problem for the administration, and we as military would simply encourage that some solution be found to make sure that the money is available not to undertake contingencies that have not been vatted appropriately with the Congress, but to make sure we maintain the readiness.

Mr. Hamre's proposal, if the Congress is willing to accept it, is one that would be very helpful to us. I recognize there is some discussion that has to go on with that. It is one that I would support if the Congress can see their way clear to—

Mr. SISISKY. I have to ask you something, and believe me this is really at the heart of everything. What is your personal opinion of what we ought to do? If you do not want to respond—I heard you say “personal opinion”—and that is why I asked.

Admiral OWENS. Well, sir, something like what Mr. Hamre has in place is useful. I think if there is some way that we can find a way to, with the administration and the Hill—I mean this is a new world.

As I said up here, it is a new world. We are facing some problems we have never seen before. Five years ago the amount of money we spent on contingencies was about \$500 million. Today it is \$2.5 billion. It is up 500 percent, and the defense budget is down 30 to 35 percent. The amount of variance is so much greater as a percentage of the whole that we have to do business differently.

So something like what Mr. Hamre has suggested is useful. If we can find a way to work together with the Congress in this new world, to have you be a part of that, I think it is an important thing to do. For us to communicate with you why we need to do it, to get your blessing, to turn it around quickly, I would suggest something like that is perhaps a good way to do it.

Mr. BATEMAN. Admiral, an effort of that type is certainly going to be made. I hope it will come together with something that the Congress will feel comfortable with and we will help avoid this turbulence in your program decisions and your management of your budget.

With that, let me now recognize Mr. Pickett as the first to arrive on the scene this morning. You are under the 5-minute rule.

Mr. PICKETT. Thank you, Mr. Chairman, and good morning, Admiral. We have heard a lot in the last few weeks with regard to readiness; how the OPTEMPO and PERSTEMPO requirements are becoming very difficult for some of the commanders to meet. Of course these kinds of requirements are driven by what is called requirements for force presence. As a part of that, the administration has set forth some criteria for the use of force and they list down treaty commitments, coalition partnerships, clear military objectives, duration of the effort, and the support of the Congress and the American people. I think those are the main considerations that they list there.

I have two questions. First, how do you all go about determining or making the decision to put forces in a certain location, and how do you determine the size of the forces that are placed there? And, second, what steps do you take if you find, as you pointed out earlier, that you are having to call upon certain units more frequently than others and these units are being, what you might call, overtasked in the overall scheme of things?

Admiral OWENS. Yes, sir, it is a very complex equation. As you know, we do not make such decisions as to when we use force. We make our military recommendations to the NCA and, of course, that is the chairman's role and I am by his side in that effort with our commanders in chief of the five regions.

There is a very good description of the administration's policy with respect to the use of force, which is in the national security strategy document. It talks, in general, to the vital interests of our country and the need to use dominant overwhelming force when the vital interests of the United States are affected. For example, Desert Storm was such an example. It says there is a second category for use of—

Mr. PICKETT. Admiral, I think maybe I did not focus my question quite well enough. We have pockets of capability deployed all over the globe. We have people in Honduras, Guatemala, Cuba, and all these different places. Are we constantly reviewing to make certain that these commitments are, indeed, necessary and essential, and that we can bring these people back from these assignments?

It seems to me we have too many open-ended commitments where we have gone and deployed our military with no exit strategy whatsoever as to when these military are going to be coming back.

Admiral OWENS. Mr. Congressman, I think this is a very important point. I would be hesitant to tell you that we, from the standpoint of the uniformed military, have been as keenly aware of those issues as we should have been. At least in my case; I will only speak for myself. We now understand much more concisely how important it is that we look at the duration of the stay and the exit strategy. So, I think this has been a very important part of our discussion inside the Joint Staff with me and General Shali and with the CINC's.

And we, of course, have been able to get in and out of Rwanda. There was a very good look, I think, at the way we would phase down in Haiti and transition to the UNMIH Force, which is in process now, as you know, and will go down from about 6,000 troops there to many fewer as we transition into an UNMIH presence. And then, with the elections in Haiti, we are looking ahead to how we accomplish the mission that was established and then get out.

We are watching what happens with respect to the use of assets in a region, for example AWACS. The Air Force has been faced with a high OPTEMPO that had AWACS deployed about 145 days a year for the AWACS crews, as I recall, and we wanted to get them down to 120 days. So we looked at the E-2-C's. When a carrier was in the Persian Gulf, why couldn't it fill the hole for the AWACS? So we have addressed that particular issue.

We have looked at the use of the reseverance and I think especially in UCON and SOUTHCOM as well as the other CINC's. There is a very interesting story about how we have looked at decreasing the amount of OPTEMPO, PERSTEMPO, burden on the active duty force with the Reserves, and we have looked at contracting out. For example, the engineers in the Army are hard-pressed in the OPTEMPO, PERSTEMPO area, and there are many areas we can bring contractors in to fulfill those needs.

We are looking at the requirements much more precisely than we have in the past from a military perspective, and we are making recommendations to our civilian leadership about how we think we should downsize or perhaps move out of given areas. And I assure you, sir, that is a topic of great interest to us as we try to not task the OPTEMPO and PERSTEMPO above what the Service chiefs think is right for their people, and, at the same time, to meet the needs of the five regional CINC's.

Mr. PICKETT. Thank you.

Mr. BATEMAN. Now, in order of appearance, the Chair recognizes Mr. McKeon.

Mr. MCKEON. I want to thank you, Admiral, for being here. I am new on the committee, and I am trying to learn what AWACS and E-2-C, and all of these mean.

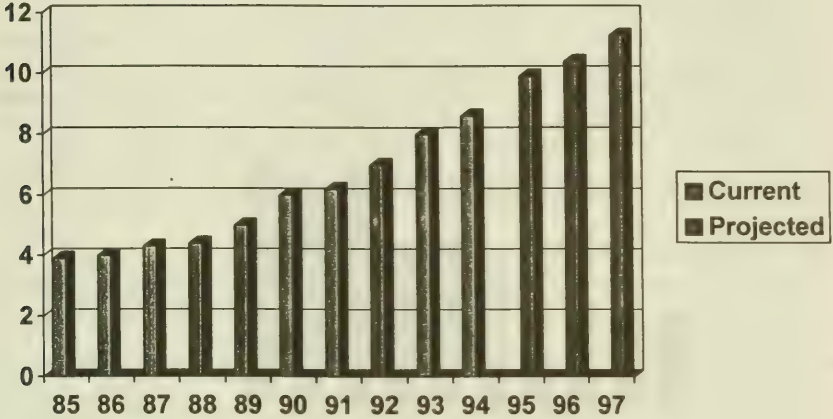
Admiral OWENS. We are too, sir.

Mr. MCKEON. It will take me a while, I am sure, to learn all of that. But let me ask a question regarding facilities. This chart, "Facilities" and "Family Housing, Repair Backlog," is that listed in current dollars or how was that \$4 billion in 1985 dollars?

UNCLASSIFIED

Facilities & Family Housing Repair Backlog

\$ Billions



UNCLASSIFIED

Admiral OWENS. Let me find out what year the dollars were, sir, but I am quite sure that is in current—it is a constant dollar chart and I would guess it is 1994 or 1995 dollars, but let me answer that, if I could, for the record. I don't know. And perhaps—perhaps I have help here, and perhaps I don't.

Mr. McKEON. Well, we can get that answer.

Admiral OWENS. I can get it for you.

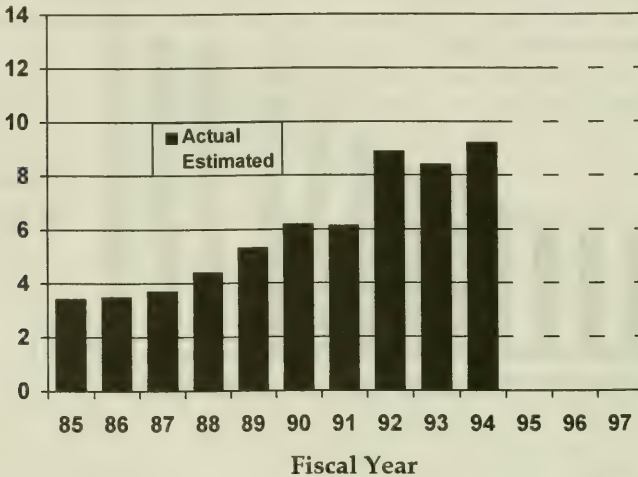
[The following information was received for the record:]

The chart reflects current dollars. An updated version of the chart follows:

UNCLASSIFIED

*Real Property Maintenance Backlog of Maintenance and Repair**

Current \$ Billions



Source: OSD O&M Overview. Published Annually
in Support of the President's Budget

*O&M Funded Facilities Only (Excludes DBOF, RDT&E, Family
Housing. Prior Year Data not Normalized for DBOF Transfer.)

UNCLASSIFIED

Mr. MCKEON. In all of our hearings we have been talking a lot about readiness, and I guess maybe I am wondering what our definition of readiness is. If somebody attacked us tomorrow, if the North Koreans moved into South Korea tomorrow, when we talk about readiness, we are ready to defend against that. But the future, the talk about the future, it seems to me that we need to enlarge our definition of readiness, because we are kidding ourselves if we think that these dollars are going to go away or the lack of procurement dollars for the future are going to go away.

I don't know, Mr. Chairman, I think this is something that we really need to look at, because if we do not catch up with our maintenance—we got in a debate the other day in committee talking about robbing Peter to pay Paul or whatever, and I think that however we talk about it everybody realizes we must be doing that.

All you have to do is look at this chart here alone to know that, and when you talk about we will be out of our helicopters and we will be out of other planes and ships, we are also running out of people.

I have concerns about young people who are coming into the service, who do not see a future and after a few years are leaving. So, where are we going to be in the future?

Can you just comment on that? Where do you see us really, how we really should be defining readiness to give us a larger picture of the problem?

Admiral OWENS. Yes, sir. It is very different from the way we would have talked about it 5 years ago when we had a much clearer world. We knew what the threat was, and what the capability needed to be, and what to do to put that in place.

As we look at readiness in the future, I think it is oriented to what these five gentlemen do. They represent our interests around the world, and it is basically the ability of the uniformed joint military forces to come together to address the missions that the national command authority will give them. It deals with the vital national interests of this country. It could deal with the defense of this country in the future from threats that we may not understand today.

It is important to note that in the past the U.S. military has predominantly defined its capability and its future readiness in terms of a threat. Today, it is a little bit difficult to know what that threat will be 10 years from now.

As you know, we identified in terms of two major regional contingencies today, illustratively North Korea and Iraq, and we will spend a lot of our time preparing ourselves in terms of force structure, in terms of lift and surveillance to do those two major regional contingencies. But we are also involved in a lot of lesser regional contingencies and operations other than war in Rwanda.

So how you look at the future, it seems to us more and more, is a matter of not only the threat but generic capability.

That is a big change in the way we have looked at the military. How do you look at generic capability? My chart on the generic warfare areas, air superiority, joint strike, counterproliferation, information warfare, these kinds of generic capabilities, we think, are the way we have to look at our U.S. military forces.

As much as we can see what is coming, there are some threats that are very questionable. They are generic threats, perhaps, like cruise missiles. We are not particularly well prepared today to deal with a cruise missile threat in any of our services. The low flying, relatively survivable, high Mach number cruise missile is a real problem for us today. We know that generically, and we must find a solution for that.

Theater ballistic missile defense is another area where we have to give a lot more attention. But there are three or four of these areas that are critical, and we know we have to fix these, and we are trying to focus attention on it.

In terms of the maintenance, I want to make sure you understand that I was not addressing the maintenance of the aircrafts, tanks, or ships in that chart. It was facilities maintenance.

Mr. MCKEON. I understand.

Admiral OWENS. And, really, we are in quite good shape in terms of the systems that we have today and in terms of their maintenance. The four services have made sure that maintenance backlog is not above historical levels.

In terms of retention and the optimism for the future, despite what I have said today and I hope I have not led you down the wrong path. I have a son who just graduated from the Naval Academy last year. He is going to be a nuclear submariner and he is down training now. I tell him that there has never been a better time to be in the U.S. military. I tell you that sir, from the standpoint of a guy who has been inside the bowels of the budget and has worked these systems and the technologies. This all volunteer force, which we have had in effect now for 20 years, is the smartest, best bunch of people we have had. We are committing the dollars to take care of them. This committee has been important to keeping faith with our people. Education is strong. We are well aware of how important it is to take care of those kids, and I think that that part of it is very optimistic.

It is up to us to have the management and the vision to make sure we can see these issues of the threat and the capability for the future, and we take it very seriously. I am happy to address any other area.

Mr. MCKEON. I see my time is up. I am really happy to hear that report. I have a good friend whose son is just leaving the Army. He is a Ranger. He is just a super young man, and I just hate to see us losing that kind of capability. So, I am glad to hear your optimistic report on that.

Mr. BATEMAN. The gentleman from South Carolina, Mr. Spratt.

Mr. SPRATT. Admiral Owens, I am sorry I was not here for your testimony. I scanned it briefly and I have benefited from your responses.

Without asking a policy position on this, if I could ask you, how would you create a contingency account or how would you budget to provide for unforeseen contingencies? After some point in time with the close of the cold war, there is actual experience from which we can begin to determine the likely outlays in a fiscal year for unforeseen contingencies, Rwandas and Haitis, things that are likely to happen.

Could we set up a reserve account? Should we in propriety try to accrue the likely amount of money that will be needed for that and simply set it aside in a reserve fund or designate it for likely contingencies?

Admiral OWENS. Well, Congressman Spratt, I acknowledge that we must do something to address this problem. We talked earlier about the contingency funding and how 5 years ago we were spending \$500 million a year; now we are spending \$2.5 billion a year on a much smaller base.

We have to find a way that we can maintain the readiness, especially when these events happen late in the year. I think the key here is, and I would not prescribe exactly how—Mr. Hamre's proposal is one that I basically support—but I think perhaps something like that with a lot of consultation, a lot of interface with the Congress, because it is a new world and we have to do that differently. We can not do it the same way we have always done it in the past if we are going to maintain our forces readiness.

Mr. SPRATT. Basically, what is John Hamre proposing?

Admiral OWENS. I think he is proposing that if in the third or fourth quarter of the year, we in the U.S. military are involved in NCA approved contingency operations that affect our readiness and the readiness accounts, the O&M accounts are not sufficient, enough money would be allowed to be spent to be able to maintain the readiness of those forces to come back to Congress then for that money at the earliest opportunity. That is basically it, sir.

Mr. SISISKY. If the gentleman would yield, I think it is done through rescissions that he would do in an account. The real problem is of the Congress' reluctance of not controlling the President's dollars and allowing him to do that. But I think it is through rescissions that we would be able to do it temporarily.

Mr. SPRATT. It seems to me there is an arrangement of choice. One is to expand your reprogramming authority. Another is to try to set aside a special account that might be usable for more things than just these types of contingencies, but to realistically budget for reserves that we know from experience are likely to be needed in the course of any year.

Admiral OWENS. Yes, sir. I mentioned earlier that as the budget goes down and as the amount of discretionary funding is less, and I showed a chart here that showed the amount of procurement funding, which is at a nadir now, and then if you have to reprogram a lot of money, like \$2.5 billion, this is not like reprogramming would have been 5 years ago. The rescission process or the reprogramming process can dramatically affect program, as you know.

Mr. SPRATT. Sure.

Admiral OWENS. You are dealing with a couple billion dollars if you are into that kind of contingency operation for the long term. So that does not work as well as it used to. It dramatically fouls up programs that have been rather carefully thought out. When we get too much rescission it tends to be very difficult for us programmatically.

Mr. SISISKY. If the gentleman would yield? I didn't mean rescission. He wanted to tap the unexpended balances.

Admiral OWENS. Yes, sir.

Mr. SPRATT. You wouldn't have to come back here. We would just give you broad reprogramming authority that would transcend titles in the Defense Authorization Act. But you run into the same problem, particularly in the fourth quarter of a fiscal year where everybody is drawing down the low balances just about and you would have to find those few accounts for one reason or another had not been expended.

Admiral OWENS. Yes, sir, I think that is right. Personally, I believe it has to be some combination of these things and perhaps a lot more interface with the Congress. But that is a personal view.

Mr. BATEMAN. The gentlelady from Florida and the vice chairman of the committee, Mrs. Fowler.

Mrs. FOWLER. Thank you, Mr. Chairman, and welcome, Admiral Owens.

It is my understanding that the Government of Thailand has turned down a United States proposal to base six of our maritime prepositioned ships in the Gulf of Thailand. As a result, JCS is reviewing all of our U.S. preposition assets.

Could you tell me what you think is going to happen with this whole preposition view? Can you comment on why the Government of Thailand turned us down and if there is any chance to reproach them on this concerning our preposition?

Admiral OWENS. The equipment afloat—preposition ships, the EAP ships—were indeed not allowed to be positioned off the coast of Thailand. It had been our intention to put them in an international anchorage far off the coast and we have had many interfaces with the Thai Government to talk about this.

It is difficult to say precisely why they did not, but it was clear that the presence of those ships in their minds meant that they were supporting America in a permanent way that was uncomfortable for them in the region with their neighbors. Especially China, their neighbor to the north. I cannot tell you precisely why, but they did not allow us to put them there. We think that we may have some alternatives that make equally good sense and, perhaps, even be better alternatives. We are working on this now.

We have had a recent CINC's conference where we talked about this and, of course, those ships were designed to flow either way, to support Korea or to support southwest Asia. They have a lot of warfighting equipment in them, but they also have a lot of combat service support equipment in them. So some balance of that needs to be made and, perhaps, we can position some of them in a position to be much more readily available and directly assigned to CENTCOM for Southwest Asia and to make the accommodations for the Korean side in another way.

So we are looking at that and we think we will find a solution for this. We would be happy to give you a more detailed brief on that, if you would like.

Mrs. FOWLER. Thank you.

[The following information was received for the record:]

In 1994, USTRANSCOM was tasked to conduct an Afloat Pre-positioning Zero-Based Study to determine the optimum siting of current and projected afloat prepositioning ships. The study recommended that twelve ships be anchored in Thailand. These ships are loaded primarily with sustainment for early deploying contingency forces. The Army pre-positioning ships (8) are loaded with combat support/ combat service support unit equipment (3); petroleum storage and distribution

equipment; water storage and distribution equipment; and sustainment such as rations, ammunition, and medical items (5). The Air Force ships (2) are loaded with ammunition. One Navy ship is loaded with a fleet hospital, while the last ship, a tanker, is loaded with bulk petroleum. None of the ships proposed for anchorage in Thailand is loaded with combat equipment such as Army tanks and Bradleys.

[Deleted.]

During the recent CINCs' conference, apportionment of the afloat prepositioning ships was discussed. The Joint Staff continues to look at determining the best solution for apportionment of the pre-positioning ships.

Mrs. FOWLER. My other question is, General Joulwan testified to the desirability of having a carrier on station in the Mediterranean in order to meet contingencies throughout the region. Today when we deploy our carrier groups to the Mediterranean and the Persian Gulf in the ocean and west Pacific they are staying for 270 days a year.

How do you see this reduced carrier availability affecting our readiness for contingencies in these volatile regions? How will our going from 13 to 12 carriers affect this? What would be the impact on our ability to respond to contingencies if we dip below what we are talking about now, the 11 plus 1? I think several of us on this panel are very interested in that question.

Mr. BATEMAN. We certainly commend you for that question.

Admiral OWENS. I am before you as a joint officer, Mrs. Fowler, as you know. I have been a strong advocate for our carrier programs. I think that the 12 is an important number for us. It would be nice to have more, but it would be nice to have more capability in the other services, too. And I honestly would find a lot of difficulty transferring money from the Army or the Air Force or the Marines for the carriers now, and that is if the top line does not go up, I am afraid that is what it amounts to.

I think what is important is to make sure that the 12 carriers can stay strong; that we recapitalize both them and the aircraft on them and that we look at that through every line, not just the F-18 E and F, but through the E-2-C block 2, and there is a procurement line to recapitalize that line, as you know, and to think in the long term about the S3s. That is a much longer term problem, but to look at recapitalizing those decks and the weapons that they deliver to make them relevant, not only relevant for the kinds of missions the Navy has had traditionally, fleet air defense, but to also make them relevant for the soldiers on the battlefield. Much more attention to close air support, to battlefield interdiction, JDAM and JSOU and laser, self-lasing capability which the F-18's now have, as you know. These kinds of capabilities so that they are truly a joint asset.

I described earlier how we have tried to use the E-2-C's, the AWACS, like aircraft from the carriers to supplement when the AWACS are not there. And so it is that we should be doing with every category, whether it is the electronic jammers, the EA-6-B's or the EF-111's for close air support for the troops in the field, et cetera. So I think we need to continue to support the 12 and try to make the balances we must make given the capability that we have.

Mrs. FOWLER. Thank you. And my question was from the point of view as you mentioned earlier. I consider them as joint assets

and, as you mentioned, they are being used as that. So their role is greater than they have performed in the past. Thank you.

Admiral OWENS. Yes, madam.

Mr. PICKETT. Could I ask a followup question, Mr. Chairman? You mentioned the word "top line," admiral, a moment ago in your comments, and it brings up the issue that concerns me about the current supplemental. If that legislative action does not result in an increase in the top line but is simply a reshuffling of moneys already appropriated to the Department of Defense, what impact is this going to have on future readiness?

Admiral OWENS. I guess, sir, it depends on how much of a rescission is taken. If it is.

Mr. PICKETT. The proposal, let's say the proposal now is to take it all from rescissions.

Admiral OWENS. I have not seen, personally, the \$1.9 billion list of rescissions that is being considered in the Senate, but I believe in each of these categories it is without a good scrub. It is back to the point I made earlier that unless you are able to scrub that list, if you look at the TRP, for example, many of those technologies in that TRP line are very important to us and I hate to see just indiscriminately taken without a lot of the scrubbing before we did so. It warrants a lot of attention as to what goes into it.

Sometimes there are unexpended balances in accounts that can be taken and, of course, that is a different story. But if you, for example, take a rescission issue on T-SAM, then even though T-SAM could be canceled, there is still some shutdown costs. So, the Air Force then has to put up the \$100, \$200, or \$300 million which has to come out of other accounts, and then has to rumble through the various accounts in the Air Force. It is terribly disruptive. When the size of the rescissions are very large and the amount of time to scrub them for warfighting, as we have tried to do through this assessment process that I tried to describe this morning, it tends to have disruptive effects inside our budget and the size of it is disproportionately large from what we have had in the past.

Mr. PICKETT. Thank you, Mr. Chairman.

Mr. BATEMAN. Admiral Owens, and members of the committee who are left, I am going to suggest at this point that if we have further questions for you we will submit them to you in writing for the record. I may, indeed, have some that I would like to submit, but in fairness to you as well as to our second panel, I think it is best to let you be excused at this time.

Before you leave, and for the benefit of the members who are still here, one of the greatest challenges I think the subcommittee faces this year is to try to come to grips with this problem of how we fund unforeseen, unexpected contingencies.

I am certainly going to hope that within the next few days I will have the specific, in writing, proposals that Mr. Hamre has come up with. He and I have been trying to find a time when our schedules would gel to talk about this issue. I do not think he is there yet in terms of something that the majority of the Congress—and I don't mean a majority in terms of party lines—but a majority of the Congress is going to be willing to buy into in its present form. But I am certainly dedicated to finding a system or finding a meth-

odology that we can come to terms with to avoid all of this budgetary, programmatic turbulence that we have experienced.

Thank you again, Admiral Owens. We look forward to working with you and seeing the broad objectives that you have outlined or something that comes to fruition.

Admiral OWENS. Thank you, Mr. Chairman. It is a pleasure to have been with you this morning. Thank you.

CATEGORIZING READINESS AND PRIORITIES

Question: The DOD places readiness into three categories:

Near term: largely robust O&M spending

Medium term: more intangible such as QOL and people programs

Long term: modernization of equipment and maintaining the technological advantage enjoyed by US forces

What are your personal views on how this balance is being maintained?

Admiral Owens: If we get the supplemental we requested, we will have the O&M dollars we need in the near term. What we may want to address in the near future is a mechanism that would make it unnecessary for the Services to seek supplemental relief for the costly contingency operations that drain O&M dollars from their original purpose. In the mid-term, the recently approved pay and benefits will go a long way in improving the overall quality of life for our soldiers, sailors, airmen and marines.

My concern lies in the long-term readiness issues that face us. For years we have relied heavily on the procurement accounts to fund our shortfalls, and now we face equipment that sorely needs modernization and technologies that we need to take advantage of. The decisions we make in this next budget cycle will be crucial if we are to maintain our technological superiority into the year 2010. We must look to capitalize on emerging technologies, fully leverage our Intelligence, Surveillance and Reconnaissance (ISR) and Command, Control and Communication (C3) capabilities, and build Joint Force synergy. Decisions we make today recapitalizing our joint warfighting capabilities will dictate our readiness in the future.

JCS PRIORITIES

Question: In your personal view, if additional resources were to be provided for readiness, where would you place the emphasis?

Admiral Owens: Our near and mid term readiness is in good shape, as long as we receive the supplemental in the amount we requested and find a way to pay for contingency costs. What we now need to focus on is the long term, and specifically on identifying and exploiting the emerging technologies that enable us to create and sustain joint warfighting capabilities.

CRITICAL FORCE ENHANCEMENTS

Question: There is an emerging consensus that critical force enhancements are essential in the following categories:

- strategic mobility including airlift, sealift and prepositioning;
- advanced precision-guided munitions to increase the lethality and survivability of US forces;
- enhancements to surveillance and C3 capabilities;
- improved readiness among selected reserve component forces, particularly the 15 brigades of the Army National Guard.

Please provide your personal views on these priorities and what other types of enhancements are necessary for you to perform your taskings?

Admiral Owens: I believe that building the force of the future requires harnessing technological leaps in surveillance, command and control, and longer range precision guided munitions. The Intelligence, Surveillance and Reconnaissance (ISR) assessment team has recommended that it is achievable to have a dominant battlespace knowledge zone--a concentration of intelligence assets for a limited period of time upon a focused, multidimensional section of the battle space. This is achievable if the necessary sensors and communications systems developed are employed in a coherent architecture which efficiently applies these assets. The three major components of the battlefield information system that provide information about the battlespace -- surveillance, information management, and communications -- all require improvement. Also assured, reliable identification of friendly versus adversary forces must be developed. Detecting and classifying threats and targets remains an extraordinarily difficult problem.

Materiel and systems must be developed at lower cost, be longer-lived, and be incrementally enhanced in capability through planned upgrades. Information technologies are the basis for continual improvements in

communications; intelligence gathering, and analysis and distribution; dominant battlefield knowledge; command and control; sensor data processing; and human performance. Applying these technologies increases the effectiveness of systems, which means that more can be accomplished with less materiel, thus reducing total cost and making the systems more affordable.

We are steadily improving our strategic lift capability. It is significant to note that in 1994 we fielded the Army PREPO Afloat Brigade. The Navy's sealift program is awarding Large, Medium-Speed Roll-on/Roll-Off (LMSR) ship construction contracts, and the Air Force has recently fielded the first C-17 squadron. While we are not where we want to eventually be in sealift, we have momentum and we need to see all these programs through to completion.

CRITICAL CAPABILITIES

Question: Please provide your views on the adequacy of the capability in the following areas:

- Chemical and biological weapons defense
- Mine Countermeasures
- Command, control and communications
- Precision Munitions

Admiral Owens: The answer to questions of adequacy is, in part, why we are examining joint warfighting capabilities. We will continue to explore capabilities from a joint perspective to get at those answers in the future.

Biological weapons, along with chemical weapons, are seen by many nations as deterrents against regional aggression. The materials to develop biological weapons can be easily found among pharmaceutical factories, medical research facilities, and biopesticide plants. Additionally, defensive biological activities may camouflage offensive production.

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The areas of Intelligence, Surveillance and Reconnaissance (ISR), advanced Command, Control, Communications, and Computers (C4), and precision munitions offer the best payoff for an additional investment of resources. Mine countermeasures are certainly of concern and require our continued interest and analysis. We are the most technically advanced military in the world and we have an opportunity to leverage our advantages even further. Our goal is to dominate future battlefields through superior technology and equipment, and through superbly trained and ready personnel.

SOUTH KOREAN CAPABILITIES

Question: We have a GAO report that is highly critical of the South Korean warfighting capabilities. The South Koreans have primary responsibility for the conduct of the land war, what are your concerns in this area?

Admiral Owens: In general terms, the South Koreans have primary responsibility for the conduct of the initial or early stages of land war which they are fully capable of performing. The Republic of Korea (ROK) fields a large, well-trained, relatively well-equipped, and professionally-led military force, and steadily invests significant sums to increase its overall war-fighting capability. We are aware of deficiencies in the South Korean ground forces. However, in close coordination with the Commander In Chief, United Nations Command, the Commander In Chief, Pacific Command, and the Joint Staff, we have encouraged ROK to resolve these deficiencies expeditiously. The ROK continues to make improvements at a steady pace. The ROK is modernizing and improving its forces with the addition of more powerful and mobile tanks, long-range and self-propelled artillery, multiple rocket launchers, armored personnel carriers, advanced aircraft and helicopters, and coastal defense ships. ROK ground force capabilities continue to improve with the formation of more mechanized and armored units, and all ROK military services continue to conduct more combat-driven training and exercise scenarios.

INDUSTRIAL BASE

Question: As you look to the long-term readiness issue, what are your concerns regarding the industrial base and what are your suggestions for addressing these concerns?

Admiral Owens: The industrial base must be able to respond to future defense requirements within the same parameters of uncertainty that the rest of our planning activities are based. With the ongoing reductions in defense funding, particularly in our acquisition programs, we are no longer able to continue to support a mobilization base concept that routinely requires emergency production capability to be created and maintained at government expense. Rather, industrial preparedness planning must be geared to exploit the current commercial trends toward rapid responsiveness, agility, flexibility, and worldwide electronic data exchange. However, there will be some cases in which a critical product, technology, or capability requirement is unique to the military. In those cases where critical capabilities are endangered, we will take steps to preserve them.

I am monitoring industrial base issues through the Joint Warfighting Capability Assessment (JWCA) process which has been specifically instituted to address long-term readiness. I am also a member of the Defense Industrial Base Oversight Council. The council's purpose is to ensure adequate National Technology and Industrial Base assessment processes are in place and appropriate responses are taken to preserve endangered critical industrial base capabilities.

JOINT REQUIREMENTS OVERSIGHT COUNCIL (JROC)

Question: You have been instrumental in increasing the involvement of the joint commands in the readiness process throughout the JROC. Would you please describe how the process works and what types of enhancements have been identified that facilitate readiness?

Admiral Owens: The expanded JROC process improves the systemic view of joint military capability through a set of Joint Warfighting Capability Assessments (JWCA). Each assessment is conducted by a team of warfighting and functional area experts from the Joint Staff, Unified Commands, Services, Office of the Secretary of Defense, Federally Funded Research and Development Centers, and others as necessary. The assessments examine key relationships between joint warfighting capabilities, and identify opportunities for improving warfighting effectiveness. The assessment process is continuous, although methodologies and products vary between areas assessed.

These assessments lend insight into issues involving requirements, readiness, and plans for recapitalizing joint military capabilities. Findings of the assessment teams are presented to the JROC and to the CINCs. Assessment products are used to influence programming and budget guidance and to develop joint requirements resource recommendations.

The Joint Readiness JWCA has highlighted readiness implications of adequate compensation, steady and dependable levels of medical benefits, and a stable retirement system.

SENIOR READINESS OVERSIGHT COUNCIL

Question: You are the Vice Chairman of the Senior Readiness Oversight Council. Please describe how this works and what are your views of the effectiveness of the process? What are some of the tangible items that have emerged from the process?

Admiral Owens: To set the record straight, I am the Vice-Chairman of the Joint Chiefs of Staff, and the co-chair, along with the Deputy Secretary of Defense, of the Senior Readiness Oversight Council.

Preparation for the Senior Readiness Oversight Council (SROC) really begins with the Joint Monthly Readiness Review (JMRR), conducted by the Services and Joint Staff. In the JMRR, the Joint Staff provides a notional scenario of two major regional conflicts (MRC).

The Services provide an update of current unit readiness, force disposition, and units committed to ongoing operations. The forces provided by the Services are then flowed to meet notional force requirements as prescribed in the Joint Strategic Capabilities Plan (JSCP). The CINCs, U.S. Forces Korea, and the North American Aerospace Defence Command (NORAD), rate their capability to execute the scenario as a supported or supporting command in eight functional areas. The result of the process is an analysis of U.S. forces and their current readiness.

Results of the JMRR are briefed to me and to the Deputy Secretary of Defense at the Senior Readiness Oversight Council. This process has been in effect since December 1994, and we are finding it very effective in keeping our senior military and civilian leadership informed of the current status and abilities of our forces. It also provides a forum for raising issues for resolution that may otherwise not reach the senior leaders as expeditiously.

JOINT WARFIGHTING CAPABILITY ASSESSMENT

Question: The National Military Strategy of selective and flexible engagement calls for involving a broad range of activities to address and help shape the strategic environment. In this process you have identified nine force enablers. How do you see them addressed in the budget process?

Admiral Owens: The Chairman of the Joint Chiefs of Staff's National Military Strategy -- "*A Strategy of Flexible and Selective Engagement*" -- supports our nation's interests and reflects the ambiguous nature of our security challenges. The strategy involves a broad range of activities and capabilities to address and help shape the evolving international environment. Since the fundamental purpose of the Armed Forces must remain to fight and win our Nation's wars, the challenge of the new strategic era is to selectively use the vast and unique capabilities of the Armed Forces to advance national interests in peacetime while maintaining readiness to fight and win when called upon.

Although the strategy does not address "enablers" specifically, we do describe three sets of tasks that are necessary to achieve the national military objectives of promoting stability and thwarting aggression. These three components of the strategy are peacetime engagement, deterrence and conflict prevention, and fighting and winning our Nation's wars.

Accomplishing the specific tasks of the strategy is facilitated by the two complementary strategic concepts of overseas presence and power projection. Overseas presence provides visible proof of our commitment to defend American interests and those of our allies and friends. Power projection complements overseas presence by acting as a deterrent to potential

adversaries while providing our national leaders greater flexibility in employing military force.

Throughout the budget process, the JWCA teams will develop issues and brief them to the Joint Requirements Oversight Council (JROC). The JROC will in turn decide what joint warfighting issues we need to address in the ongoing budget cycle.

JOINT READINESS

Question: Please describe the process whereby joint force readiness is measured against the enablers list that has been put forward by the joint staff.

Admiral Owens: The Chairman of the Joint Chiefs of Staff views readiness as having two integral parts. The Services' traditional responsibility to train, equip and provide forces, along with the Commander In Chief's (CINC's) ability to integrate and synchronize forces, combine to form the Chairman's overall readiness responsibility. The Joint Monthly Readiness Review (JMRR) looks at these two areas to provide a current and near-term readiness-to-fight assessment of military forces.

In the JMRR, the Joint Staff provides a notional scenario with sequence and timing of two major regional conflicts. The Services provide an update of current unit readiness, force disposition, and units committed to ongoing operations. These forces are then flowed to meet notional force requirements prescribed in the Joint Strategic Capabilities Plan (JSCP). The nine CINCs, U.S. Forces Korea, and NORAD, rate their capability to execute the scenario as a supported or supporting command in eight functional areas: Mobility; Intelligence, Surveillance, Reconnaissance; Joint Headquarters Capability; Command, Control, Communications and Computers; Logistics and Sustainment; Special Operations; Infrastructure; and Joint Personnel.

Results of the JMRR are briefed to me and to the Deputy Secretary of Defense at the Senior Readiness Oversight Council.

Question: You have been appointed as the Joint Staff focal point for all readiness issues. In this role, you have the task of developing joint readiness definitions and standards, as well as procedures for monitoring joint readiness and for integrating readiness considerations into the planning, programming and budgeting system. How is this effort going? What have been some of the results?

Admiral Owens: The process is moving along very well. Last year the Chairman of the Joint Chiefs of Staff tasked us to "define, measure, and fix joint readiness." At that time we did not even have an approved definition of joint readiness. Now we do. The definition, and how it fits into our overall definition of readiness, follows:

"Readiness: The readiness of U.S. military forces to fight and meet the demands of the National Military Strategy is the synthesis of two distinct but interrelated levels of readiness:

Unit Readiness: The ability to provide capabilities required by the CINCs to execute their assigned missions. This is derived from the ability of each unit to deliver the outputs for which it was designed.

Joint Readiness: The CINC's ability to integrate and synchronize ready combat and support forces to execute his assigned missions."

To measure joint readiness as was requested by the Chairman of the Joint Chiefs of Staff, the Joint Staff has placed several systems in place. For assessment of current readiness and the military's ability to conduct two nearly simultaneous major regional conflicts (MRC), we use the Joint Monthly Readiness Review (JMRR). The JMRR provides the Services and CINCs the opportunity to raise key warfighting readiness concerns based on current real

world contingencies. Issues raised during the JMRR are worked under the eight functional areas of the JMRR and through the normal Joint Staff process.

From this monthly review we can draw some conclusions as to the overall current and mid-term readiness of our forces to accomplish our strategy. We also get indicators as to where there may be upcoming problem areas, so we can act to forestall any current readiness deficiencies. The results of the JMRR are provided through an executive briefing to the Senior Readiness Oversight Council (SROC), co-chaired by the Deputy Secretary of Defense and myself.

Just as the JMRR fills the need for a recurring analysis of current and near-term readiness projection, the Joint Warfighting Capabilities Assessments (JWCA), under the expanded Joint Requirements Oversight Council (JROC), includes a systematic analysis of the readiness of future forces. That is, we try to assure that as we recapitalize and build the forces that the nation relies upon, our future forces will maintain the capability to win.

The JROC, with membership of the Vice Chiefs of each Service and myself, performs mission need review, validation and prioritization of requirements, and determines the best placement of our scarce dollars and resources. Established by Goldwater-Nichols in the mid-1980s, the JROC is now designed to provide a senior military perspective on what the nation requires for national defense, and, in particular, to determine whether various major weapons, weapons systems, and other military capabilities are actually required.

Throughout the process the JWCA teams develop issues and brief them to the JROC. The JROC in turn decides what joint warfighting issues we need to address in the ongoing budget cycle.

REPORTING READINESS

Question: In your personal opinion, what are the main causes of concern for engaging in the near-simultaneous MRC scenario as envisioned by the BUR? Where are the more severe shortcomings and what can be done to fix it?

Admiral Owens: The Joint Monthly Readiness Review (JMRR) is an excellent process for highlighting concerns and shortages in meeting the two major regional conflict (MRC) scenario. With participation by the Services and CINCs in a monthly process over the past half year, we have been able to determine with a high level of confidence that there are readiness as well as capability concerns with meeting the two MRC scenario.

The greatest assistance you can provide in ensuring the reduction of the concerns I have enumerated is to ensure adequate and stable funding of readiness accounts; commitment to a quality force as measured by your support of pay and quality of life programs; continued support for investments in force enhancements such as strategic mobility and precision-guided munitions; and the rapid restoration of funds and war reserve materiel resources expended for unplanned contingency operations.

PREPOSITIONING

Question: Admiral Owens, the government of Thailand has turned down a U.S. proposal to base six maritime pre-positioned ships in the Gulf of Thailand. We have heard that this has prompted the JCS to order a complete review of U.S. pre-positioned assets. Is this so, and what aspects of the prepositioning program are under review?

Admiral Owens: The Joint Staff has done an assessment of U.S. global pre-positioned assets, but it was not as a result of Thailand's decision not to allow U.S. ships to be pre-positioned in its waters. The assessment was initiated as a result of the changing global security situation. The assessment took an operational look at where we should concentrate our pre-positioning efforts. The Joint Staff, DOS, DOD, the CINCs, and Services are now looking at the diplomatic and fiscal aspects of the assessment's recommendations. The assessment reinforced our need to increase our pre-positioning focus on Southwest Asia.

DEFENSE SCIENCE BOARD TASK FORCE ON READINESS

Question: The Defense Science Board Task Force on Readiness made specific recommendations regarding the need for better measurement of joint readiness. What measures have been taken to improve joint readiness assessments, and how have these measures improved the accuracy of readiness assessments? Specifically, have any of the new measures lessened the degree to which the JCS must rely on commanders' subjective assessments, or improved the ability to predict future readiness status?

Admiral Owens: The legacy of the Defense Science Board Readiness Task Force, which issued its' final report last summer, is that it focused on joint readiness from the perspective of the warfighting Commanders in Chief (CINC). To that end, the Task Force provided an extremely valuable insight into the requirements for improving our measurement of joint readiness. In some measure, the Chairman's Readiness System, with its primary current readiness assessment tool of the Joint Monthly Readiness Review (JMRR), had its genesis in the recommendations of the Readiness Task Force.

The purpose of the JMRR, instituted in December 1994, is to identify and analyze critical deficiencies that may reduce or preclude a CINC's performance of assigned missions, and to report on current efforts to rectify deficiencies discovered. In the JMRR, the Services describe current force commitments around the world and the current and projected level of readiness of their units. We ask the Services to project their readiness to a six and twelve month outlook, recognizing that with the rapid pace of world events and our requirement to participate in them on short notice, such projections are necessarily somewhat subjective. Significant Service readiness trends are highlighted at each brief.

The JMRR also includes each CINC's assessment of his ability to integrate and synchronize forces provided by the Services to execute his functional areas. These are: Mobility; Intelligence, Surveillance and Reconnaissance; Joint Headquarters Capability; Command, Control, Communications and Computers (C4); Logistics and Sustainment; Special Operations; Infrastructure; and Joint Personnel. The JMRR also requires the Services and CINCs to assess current and near-term readiness to execute a two major regional contingency scenario from their respective supported or supporting role. The Service Chiefs and I brief the JMRR to the Department senior leadership in the Senior Readiness Oversight Council, co-chaired by the Deputy Secretary of Defense and myself.

It is an evolving process, but to date the benefits derived are considerable. We focus the senior leadership on the pressing, immediate readiness issues, and together we determine where to place additional emphasis and resources.

Just as the JMRR fills the need for a recurring analysis of current readiness and near-term readiness projection, the Joint Warfighting Capabilities Assessments (JWCA), under the purview of the expanded Joint Requirements Oversight Council (JROC), includes a systematic analysis of the readiness of future forces. That is, we try to assure that as we recapitalize and build the forces that the nation will rely upon in the future, our future forces will maintain the capability to win.

The JROC, with membership of the Vice Chiefs of each Service and myself, performs mission need review, validation and prioritization of requirements,

and determines the best placement of our scarce dollars and resources. Having its genesis in the Goldwater-Nichols Act of 1986, the JROC is now expanded to provide a senior military perspective on what the nation requires for national defense, and, in particular, to judge whether various major weapons, weapons systems, and other military capabilities are actually required. To make these kinds of judgments, the JROC considers underlying elements of future U.S. military functions and needs that are the foundation for talking sensibly about military requirements.

Since being appointed to my present position a little over a year ago, the Vice Chiefs of the military services and I have spent a considerable amount of time reviewing our joint warfighting capabilities. We have engaged the Unified Commanders in our discussions, as well as the Chairman and other members of the Joint Chiefs. The JWCA, the JROC and the JMRR have become the real centers of thought, discussion, planning and debate with regard to what requirements for our nation's military forces ought to be, now and in the foreseeable future, and how we can assure our forces remain ready to meet the demands of contingencies and conflict.

REPORTING READINESS

Question: The JCS recently implemented the Joint Readiness System for the CINCs to use in reporting readiness. Please describe:

- (a) how the new system provides a more objective readiness assessment, and
- (b) the specific criteria that has been provided to the CINCs for reporting in the eight areas of the Joint Monthly Readiness Review?

Admiral Owens: The Chairman's Readiness System solicits current, projected, and major regional contingency (MRC) scenario readiness assessments from the Services and all Commanders In Chief (CINCs). The readiness of U.S. Military forces to fight and meet the demands of the National Military strategy is the synthesis of the two distinct but interrelated levels of readiness represented by the Services and the CINCs.

Services assess unit readiness, that is, the ability to provide capabilities required by the CINCs to execute their assigned missions. This is derived from the ability of each unit to deliver the outputs for which it was designed. The CINCs assess joint readiness, that is, the CINC's ability to integrate and synchronize ready combat and support forces to execute his assigned missions. The overall assessment is subjective in nature, but built upon a great deal of objective data.

Services use quantifiable data from the Status of Resources and Training System (SORTS). This objective source provides a snapshot in time of unit status in personnel, equipment, and training. The CINCs assess eight distinct functional areas: Mobility; Intelligence/Surveillance/Reconnaissance (ISR); Joint Headquarters Capability; Command, Control, Communications, and Computers (C4); Special Operations; Logistics and Sustainment; Infrastructure; and Joint Personnel. The assessments in each functional area are determined from an

amalgamation of objective metrics and subjective experience. The combination of the Services' assessments of unit readiness and the CINCs' assessments of the functional areas provides the Chairman of the Joint Chiefs of Staff a more comprehensive and objective readiness assessment.

The criteria used by the CINCs to assess each functional area listed above is fairly uniform and provided by the JCS, but allows for some unique metrics if requested by a CINC to reflect his unique mission. The metrics are too numerous to completely enumerate here, but some examples by functional area are provided for illustration: Mobility: Strategic airlift requirements/capability, Throughput capacity, Strategic sealift requirements/capability; Infrastructure: Road networks, airfields, water distribution, power generation; ISR: Interoperability of systems and personnel, vulnerability of systems, mobility of systems.

It is the combination of the Services' and the CINCs' assessments that provides a complete picture of our joint readiness to fight and win.

JOINT EXERCISE PROGRAM

Question: According to JCS officials, the Chairman's Joint Exercise Program includes exercises that are of marginal training value while other so-called joint exercises involve only a single Service. What actions are being taken to improve the joint training program?

Admiral Owens: At the direction of the Chairman of the Joint Chiefs of Staff, the Joint Staff led a review of the Chairman's Exercise Program from October to December 1994. Review participants included the Office of the Secretary of Defense, Joint Staff, Services, and unified Commanders-in-Chief. The review assessed exercises in the CJCS Exercise Program and looked for better ways to align exercises within the program and to create more efficient and effective joint training opportunities. As a result of the review, the Chairman of the Joint Chiefs of Staff designated U.S. Atlantic Command as the executive agent to develop a requirements-based joint exercise program.

Joint training requirements are derived from those tasks identified during mission analyses by commanders and their staffs. At the combatant command level, initial theater planning guidance and priorities are found in the National Security Strategy, National Military Strategy, Joint Strategic Capabilities Plan, Defense Planning Guidance, and applicable treaties.

The immediate goal of a revised joint training policy is to develop a usable joint mission essential task list that will accommodate the construction of future joint exercises. Once the joint mission essential tasks have been developed, the allocation and synchronization of a prioritized list of both politically and training driven worldwide exercises can be addressed. Development of a revised joint training program is receiving high attention by the Chairman, the combatant commanders, and the Services.

JOINT OPERATIONS

Question: Recently, JCS made significant changes to its strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command. Other regional CINCs have voiced concerns about the command's ability to train forces for their use. What actions are being taken to address these concerns?

Admiral Owens: CINC U.S. Atlantic Command (USACOM) is responsible for the joint training of assigned forces. Moreover, as US forces withdraw from overseas, a greater proportion of the forces fall under USACOM's training responsibility. However, the overseas missions still exist. Thus, USACOM, in addition to its missions in the Atlantic region, will build joint training plans to serve as a mechanism for improving and standardizing joint training tailored to supported combatant commanders' needs -- this is part of their Joint Force Integrator role.

To facilitate, we are institutionalizing a joint training system that is requirements driven -- defined in terms of tasks, conditions and standards. The Joint Staff will publish all the regional combatant commands' Joint Mission Essential Tasks in the form of a "common task" list. This list, along with the CJCS recommended training issues, is included within the Chairman's Joint Training Master Plan (CJCSI 3500.02) to guide USACOM in developing their training program. Thus, the Joint Training Master Plan will provide CJCS guidance and communicate training requirements.

Mr. BATEMAN. If our second panel would please take their places at the witness table, and in the order I have them listed: Major General Hopgood; Major General Franks; Major General Hurd; Rear Admiral Lair; and Rear Admiral Fargo.

Welcome, gentlemen, and thank you for being with us this morning. First, I will ask that we hear from General Hopgood, reminding him that his entire prepared statement will be made a part of the record and we will be happy to hear his summary or in whatever form he wishes to comment.

**STATEMENT OF MAJ. GEN. MARVIN T. HOPGOOD, JR., USMC,
DIRECTOR OF OPERATIONS, U.S. PACIFIC COMMAND**

General HOPGOOD. Thank you, Mr. Chairman and members of the committee. It is indeed a pleasure to be with you today to reiterate what Admiral Macke, my Commander in Chief, said to you a few short weeks ago. The primary emphasis we have in the Pacific remains on warfighting, the preparedness for warfighting, and our people.

I would also mention to you that in our region, the Pacific, we have an economic miracle out there. The nations that are trading partners of the United States and our allies have achieved an economic miracle, but we think there is also a security miracle out there that has been able to be achieved by our forward presence and our readiness in our continuous day-to-day action with our allies.

So, we believe that our readiness right now is good. We certainly are proud to be on the forefront, if you will, of many actions that represent our Nation.

Thank you.

Mr. BATEMAN. Thank you, General.

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SUBCOMMITTEE ON MILITARY READINESS

STATEMENT OF

MAJOR GENERAL M.T. HOPGOOD, USMC

DIRECTOR FOR OPERATIONS

UNITED STATES PACIFIC COMMAND

BEFORE THE HOUSE NATIONAL SECURITY COMMITTEE

SUBCOMMITTEE ON MILITARY READINESS

ON JOINT COMMAND READINESS: REQUIREMENTS AND CONCERNS

MARCH 9, 1995

FOR OFFICIAL USE ONLY
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SUBCOMMITTEE ON MILITARY READINESS

Mr. Chairman and Members of the Sub-committee:

During February, Admiral Macke testified before several congressional subcommittees on the U.S. military posture in the Pacific. At the very top of his priorities were "warfighting and people." He highlighted readiness as an essential element of both an effective warfighting capability and the Pacific Command's Cooperative Engagement strategy. He also stressed the importance of well trained people who have a reasonable quality of life as being a crucial factor in maintaining military readiness. I want to reinforce his comments by focusing on readiness issues.

Today, USCINCPAC forces are ready. They accomplish their day-to-day missions exceedingly well. Our forces are ready to meet regional contingency taskings.

The readiness required for effective warfighting is also the critical element for PACOM's Cooperative Engagement Strategy. As Admiral Macke has stated, our "Cooperative Engagement is a well-established, winning military strategy." Consequently, we place great emphasis on partnership building as part of our readiness posture in the Pacific. We conduct numerous exercises of various sizes throughout the region, each designed to strengthen the interoperability and combat readiness of our allies as they train with American forces. We also benefit from their exposure to American values and the increased access these contacts bring.

By participating in bilateral/multilateral exercises, we build credibility with our allies and encourage regional cooperation. Our strategy of Cooperative Engagement ensures continued stability in our diverse and potentially volatile region.

Several initiatives, such as the Foreign Military Interaction program, the International Military Education and Training program, and PACOM's Joint/Combined exercise program are absolutely critical to U.S. mid to long term goals in the region. A successful Cooperative Engagement Strategy depends on continued full support of these programs to keep us actively engaged in the region.

Within the Pacific Command, we rely heavily on training methods which take advantage of technological advances in computer supported wargames and simulations. This year, for the first time, we will use a modern theater-level simulation to drive the combined exercise COBRA GOLD in Thailand. As additional systems come on-line, Pacific Command will expand computer driven simulations in order to enhance staff training.

Adding it all up, Mr. Chairman, military training includes technical, tactical, joint, and combined training. This training requires adequate funding for costs like flying hours, steaming days, practice ranges, targets, as well as base infrastructure, support services, munitions, and consumable repair parts. In addition there is a growing requirement for improved and linked

simulations, bilateral and multilateral exercises, and Foreign Military Interaction programs. Training costs are going up, not down!

As you know, Combatant commanders are charged with ensuring real world missions are accomplished. Our training and readiness are means to that end: accomplish the mission when it comes. To ensure we are ready to do just that--accomplish the mission--PACOM closely tracks current and future readiness indicators. Today, these indicators say we are on the edge. If the bill for unanticipated contingencies continues to grow, and if supplemental funding is not provided in a timely fashion, commanders will be forced to make tough decisions on meeting current operational commitments, decisions that affect both equipment and personnel readiness.

With the reduction in force levels, we have experienced an increase in operations and personnel tempo for our people. We are not down to the Bottom Up Review force levels yet, but we are seeing operations and personnel tempo goals pushed across all services. Pacific Air Force's AWACS crews are one of the most heavily tasked units in the U.S. Pacific Command. The Pacific Fleet's Overseas Family Residency Program, those Navy men and women stationed in Japan, experience high operational tempo due to periodic deployments to the CENTCOM area of responsibility in addition to their commitments supporting PACOM's requirements. Our Pacific Force Marines often return from one deployment and

are shortly reassigned to the next deploying unit in order to meet necessary personnel strength requirements.

Our magnificent people have met this difficult tasking head on. Mr. Chairman, our people continue to demonstrate they are the key to readiness. I firmly believe a highly trained, ready force, composed of motivated, and clearly focused people, remains the key ingredient to combat readiness. To ensure a combat ready force, we must recruit and keep top-notch people, ensure normal career progression, and offer basic quality of life and compensation programs. Adequate funding for these programs is necessary to keep our forces focused on their demanding missions.

In summary, Mr. Chairman, Pacific Command forces are ready today, but the signs are there that we are near the edge. We can back away from that edge:

- If Congress provides the budgeted O & M funds;
- If Congress promptly and favorably responds to the request for supplemental funds to cover unanticipated contingency requirements;
- And, Congress provides requested readiness preservation authority to protect readiness when unanticipated contingencies occur in the future.

Again, thank you. With your support on the issues I have highlighted, I believe this time next year I will still be able to report "Pacific Command Forces are ready."

Mr. BATEMAN. Now we will hear from our next witness, General Franks.

STATEMENT OF MAJ. GEN. TOMMY R. FRANKS, USA, DIRECTOR OF OPERATIONS, U.S. FORCES, KOREA

General FRANKS. Mr. Chairman, Mr. Sisisky, and members of the committee, it is an honor to be here and share views about the security posture in Korea. As you know, the situation in Korea remains dangerous today. North Korea continues to promote military strength over economic, political, and social development. They also persist in placing the highest priority on their ground forces, the expansion of their artillery formations, enhancement of their special operations forces, and enlargement of their ballistic missile arsenal.

In short, North Korea's forward deployed forces go beyond legitimate defensive needs and we spend our efforts and our energy paying close attention to them.

Over the past several years, North Korea's threat has assumed a new dimension with the development of their nuclear program. This effort has represented a clear threat to the ROK and to our national interests, as well as having global implications. An unrestrained North Korean nuclear program coupled with a large defensive force, which they certainly have, could have sparked an unconventional nuclear arms competition in Asia.

Based on these realities, controversy, as you know, grew between 1992 and mid-1994 over their noncompliance with the Non-proliferation Treaty and also IAEA safety standards. The North Koreans sparked a crisis in the spring of 1994 when they defueled the reactor and continued to refuse IAEA's request for access to sites that would confirm the amount of plutonium that they had removed earlier.

The international community, faced with this intense North Korean obstinancy, moved forward with efforts to impose sanctions on the North through the United States Security Council. Tensions on the peninsula grew amid North Korean threats to turn Seoul into a sea of fire and their statements that would consider sanctions a declaration of war.

In response to that, the United States and ROK forces in Korea took measures to improve readiness. The steps taken were prudent given North Korea's pronouncements. We planned numerous enhancements to speed reinforcements to the Peninsula had that become necessary. Additionally, we improved our command and control architecture, our communications capabilities, our intelligence capabilities, air defense, and air and ground power capabilities.

The scope and the depth of preparations that I have just described placed combined forces command in a strong military position as North Korea weighed its course of action and, ultimately, decided to reduce political and diplomatic tensions by restarting negotiations and coming to the agreed framework.

The combined forces command, United States forces in Korea, were ready then and are ready today. What stood out most during the time of this great tension was the superb skill and professionalism of the soldiers and the sailors, airmen, marines, and our ROK coalition partners in Korea during this time frame.

We certainly are, and I believe justifiably, proud of their accomplishments and proud of the way they go about their business in Korea every day.

I would like to make a final point that has to do with our military allies, the Republic of Korea. These are challenging times and we could ask for no finer military ally than the Republic of Korea. The ROK feels a large, well-trained, professionally led military force is necessary. They steadily invest significant sums to increase the overall warfighting capability of that force.

The morale of ROK troops is high, and the combined United States and ROK forces have an effective working relationship. Workforce improvement plans continue at a steady pace and overall defense spending remains strong, with ROK still devoting a significant share of its GNP to defense.

So, I will close by saying the situation on the Korean Peninsula, while tense, is manageable. The Northern threat is ever present but it is being handled, I believe, in a prudent way. Thankfully, the ROK-United States security alliance is strong and it is capable. Our mission in Korea remains crystal clear. Our forces will continue to engage in deterrence, but if deterrence fails we must be prepared to fight and win. And, sir, our readiness underpins that notion.

Thank you.

Mr. BATEMAN. Thank you, General.

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STATEMENT OF
MAJOR GENERAL TOMMY R. FRANKS
ASSISTANT CHIEF OF STAFF, J-3, U.S. FORCES, KOREA
BEFORE THE HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
9 MARCH 1995

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J3 UNCLASSIFIED STATEMENT FOR THE RECORD

Mister Chairman and members of the Committee:

It is a distinct honor to present my views on the readiness of forces on the Korean Peninsula. Our discussion today is most opportune since it addresses important security implications for the United States (US) and the Republic of Korea (ROK). I share your concern that we need to fully appreciate the readiness of our forward presence military stationed in one of the most dynamic regions of the world.

Before we begin today's discussion, I wish to express my gratitude for the firm support that Congress has shown United States Forces Korea. You have always had the prudence to understand that the world is still a dangerous place, and much uncertainty and instability remain on the Korean peninsula. Your actions to resist abrupt troop and budget cuts in Asia have reassured our allies and also warned our potential adversaries of America's steadfast support and commitment to the region. Recent security events prove the wisdom of preserving a responsive American troop presence in Asia. As you know, the current security climate mandates that we not merely think or talk

tough, we must actually be strong and ready to handle any military situation that might suddenly arise.

American military strength and commitment to Northeast Asia helps promote the region's notable economic growth. A credible forward-deployed military presence provides for the peace and stability essential to the formation and expansion of healthy economic markets and democratic institutions, while permitting us to share in important regional security decisions. Moreover, our military presence helps to deter a war that could destroy the viability of the region as a major market for American products and services. Since successfully stopping Communist aggression on the Peninsula in the early 1950's, we have maintained a strong defensive military posture in the ROK to prevent a renewed military attack from North Korea (NK). Combined Forces Command (CFC), United Nations Command (UNC) and United States Forces Korea (USFK) constitute a strong military force -- a combined defensive force characterized by readiness, professionalism, discipline and vigilance. I am pleased to report that our security relationship with the ROK, which has successfully served both nation's vital national interests for over forty years, is still actively focused on clear mutual security objectives: deterring the outbreak of war on the

Korean Peninsula and not allowing NK to intimidate its progressive neighbors in Northeast Asia. However, if deterrence should ever fail, ROK and US forces are ready and able to defeat NK aggression and achieve favorable war termination objectives.

The security situation in Korea remains quietly tense and dangerous. The build-up and forward deployment of NK conventional military forces along the Demilitarized Zone (DMZ) continues despite the sudden death of NK's long-time dictator Kim Il-Sung and the Nuclear Framework Agreement. North Korea still masks most of its internal activities from outside observation. However, there is convincing evidence that NK continues to promote military strength over basic economic, political and social development. As a result, NK remains one of the most militarized countries in the world. For this reason, we must keep the ROK-US bilateral relationship strong and prepared for any eventuality.

Today, as in the past, a ROK-US combined defense team stands ready to successfully counter any offensive military or terrorist action by North Korea. A close security relationship between the US and the ROK proved essential to the overall defense effort during increased tensions last summer and it

remains the central focus of Korea's deterrence posture. Our complex security environment demands mutual understanding and frequent, in-depth consultations between the ROK and US military and government staffs on the Peninsula.

I am pleased to report that the ROK continues to be a superb military ally. The ROK fields a large, well-trained, relatively well-equipped, and professionally-led military force and steadily invests significant sums to increase its overall warfighting capability. An active and strong combined ROK-US defense team is focused on the NK threat and working closely on improvement in defense plans and warfighting strategy, tactics, and support procedures. The morale and spirit of ROK and US forces in Korea remain high, and the joint and combined military planning staffs have effective working relationships. ROK force improvement plans also continue at a steady pace. The ROK is modernizing and improving its forces with the addition of more powerful and mobile tanks, long-range and self-propelled artillery, multiple rocket launchers, armored personnel carriers, advanced aircraft and helicopters and coastal defense ships. ROK ground force capabilities continue to improve with the formation of more mechanized and armored units, and all ROK military services

continue to conduct relevant and realistic training and exercise scenarios.

Republic of Korea defense spending remains substantial. Defense spending over the past five years has represented between 22% and 26.3% of the ROK national budget or between 3.3% to 3.8% of ROK gross national product (GNP)(US Embassy figures). Historically, the ROK has ranked near the top of all US allies in its share of GNP allocated to defense. The ROK defense budget is growing due to an expanding economy and future defense budgets will most likely outpace inflation. The ROK has also habitually devoted a significant portion of its population to defense with universal conscription and a strong reserve training program. The ROK has more than 650,000 personnel in uniform (roughly one-third of US levels, with a population less than one-sixth of the US) and has reserve forces much larger than our own. The ROK also buys a considerable amount of US weapon systems and spare parts -- over 3.5 billion dollars in the past five years or about 83% of all foreign military spending by the ROK. Although the ROK military budget totals \$12.6 billion for CY94, we must remember that ROK GNP measures only \$360 billion, only slightly more than the US defense budget.

While carefully measured diplomatic and commercial initiatives are pursued in the region, military strength and vigilance are vital prerequisites. The stakes are just too high to risk doing otherwise. Although we would certainly prevail during any war in the region, the price in human lives and monetary costs would be staggering. That is why we must carefully weigh and fully appreciate the grim consequences of conflict in the region – enormous death and destruction, the wreckage of a vibrant economy, flood of refugees, and huge reconstruction costs. The cost of deterrence through strength and vigilance is a great bargain by comparison.

The ROK-US security relationship, one of our oldest policy cornerstones in Asia, remains vitally important. Regardless of what relationship might evolve between Washington and Pyongyang in the near future, the US must remain fully committed to this mutually beneficial alliance. Thankfully, the ROK-US security alliance remains stronger and more capable than ever during these fluid and uncertain times.

Mr. BATEMAN. Next we will hear from General Hurd. General, please proceed.

STATEMENT OF MAJ. GEN. JOSEPH E. HURD, USAF, DIRECTOR OF OPERATIONS, U.S. EUROPEAN COMMAND

General HURD. Thank you, Mr. Chairman and members of the committee. It is a pleasure to be here today. General Peay recently testified before the full committee and discussed the broad ranges of issues facing us at Central Command. So, today I will only focus on the areas of readiness and sustainability.

As you know, CENTCOM has no forces permanently assigned and so we depend upon the services to provide those forces during contingency operations. And, I must say that throughout our operations since Desert Storm, U.S. forces have come to us fully trained, equipped, and ready to perform their assigned missions.

Our exercise program today includes joint combined and staff exercises, and we do those both as command post exercises and as field exercises to continually hone skills that enable our forces to perform professionally in any contingency.

To ensure that the services are able to continue this program, we need to maintain the O&M funding to support those exercises that we do both in the States and overseas with our coalition partners.

Another key is the sustainment of our forces once we deploy them. As you know, our sustainment comes from either prepositioned stocks in theater or CONUS based stocks. The long distance between the CONUS and the Central Command's area of responsibility—7,000 air miles or 8,600 sea miles from the east coast—make us particularly dependent in crises upon our prepositioning posture. Although we have made great strides in this area since Desert Storm, we still must do more to ensure that we are ready to meet the potential threats to our vital interests in the regions. The cornerstone of this effort is the prepositioning of three heavy brigades of equipment ready for use in crisis in the regions.

Plans call for the brigade already in Kuwait to be joined by a shore brigade sighted elsewhere in the region and a third brigade afloat. However, in light of our experience last October in Operation Vigilant Warrior that was in response to the Iraqi movement of troops toward the Kuwaiti border, we now believe it is important to have a third brigade already ashore. Then, that would provide the forces to allow us to respond quickly to any major conflict in that region. Your support for our prepositioning program is critical to our success.

In addition to the prepositioning of equipment in the region, we must preserve and enhance our ability to project power with strategic lift that is both air and sea. This means acquiring the required airlift and sealift platforms while maintaining and exercising the Ready Reserve Force to ensure that the required capability will be there when and if we need it. It also means ensuring the readiness of the Marine Corps' maritime prepositioning force to provide rapid response to challenges in our area of the world. And, finally, it means protecting the complimentary capability of the Army, a fleet prepositioning of ships which allows us to assemble that heavy armored force for deployment in a major conflict.

In conclusion, there are many factors that determine readiness of our force. It is only through the skillful blending of mobility, lift, and maintaining current readiness that we can preserve the necessary readiness to meet the challenges to our vital interests abroad. We rely on your continued support to ensure that each of these critical elements will receive the attention in funding it requires for us to protect U.S. interests today and in the future.

Thank you, sir.

Mr. BATEMAN. Thank you, General Hurd.

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STATEMENT OF

MAJOR GENERAL JOSEPH E. HURD, USAF
DIRECTOR OF OPERATIONS
U. S. CENTRAL COMMAND

BEFORE THE READINESS SUBCOMMITTEE
OF THE
HOUSE NATIONAL SECURITY COMMITTEE

9 MARCH 1995



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MEETING THE CHALLENGE IN THE CENTRAL REGION: AN
ASSESSMENT OF U.S. CENTRAL COMMAND (USCENTCOM)

INTRODUCTION

In October 1994, Saddam Hussein again threatened the fragile stability in the Arabian Gulf. Iraq's build-up of forces along Kuwait's border exhibited a willingness and ability to threaten its neighbors and to jeopardize access to the oil that is the lifeblood of the industrialized world. The strong, rapid U.S. response during Operation VIGILANT WARRIOR demonstrated our military capability, likely averted another war in the Gulf, and highlighted the importance we attach to this vital and volatile region. Operation VIGILANT WARRIOR was a resounding success for several reasons. First, the decisive response of our National Command Authorities, backed by the overwhelming support of Congress and the American people, sent an unmistakable message of resolve. Second, the superb performance of our trained and ready forces, both forward deployed and moving on short notice from the U.S. or standing alert, provided a clear and convincing demonstration of America's military power. Finally, it validated the importance and criticality of the enhancements to our forward presence posture and the increase in prepositioned equipment in the Gulf region since DESERT STORM.

At the onset of the crisis, USCENTCOM relied on forward deployed Navy and Air Force units, Marines, Special Operations Forces and Patriot missile batteries, along with regional and allied forces, to make clear our resolve to defend against Iraqi aggression. Within days, these forces were joined by the aircraft carrier USS GEORGE WASHINGTON, additional cruise missile ships, reinforcing Air Force squadrons, and two Army brigades. Meanwhile additional U.S. forces were deploying or standing by for further orders. This vivid demonstration of American military capability and resolve in the face of a very real Iraqi threat forced Saddam Hussein to back down and defused the crisis. Perhaps equally important, U.S. resolve and our rapid and decisive response to a threat in the Central Region sent a clear message to other potential aggressors who might be tempted to challenge U.S. interests.

Today our forward deployed forces are actively engaged in the execution of U.S. policy throughout the Central Region. In the North Arabian Gulf, Maritime Intercept Operations (MIO) enforce UN sanctions prohibiting certain trade with Iraq. In 1994 our ships conducted the vast majority of MIO boardings, which have now totaled nearly 10,000 since the operation began in 1990. Also in the Gulf region, Operation SOUTHERN WATCH aircraft have flown over 58,000 sorties, 38,000 of them over Iraq since the creation of that task force in 1992. Finally, we currently

have over 4,000 personnel participating in Operation UNITED SHIELD in support of the withdrawal of UN forces from Somalia.

Despite our success during Operation VIGILANT WARRIOR and these other ongoing operations, numerous threats to regional stability remain. The traditional Persian/Arabic rivalry for dominance in the Gulf region continues between Iran and Iraq as they vie for influence with their neighbors. Population growth and worsening oil-based economies will lead many nations to greater reliance on outside assistance, despite the vulnerability to influence and manipulation that it brings. Famine in Africa will likely again require massive international efforts to curtail widespread starvation. Tensions over water rights and disputed borders will also continue. However, the single greatest threat to stability in the region is proliferation of weapons of mass destruction, and the associated spread of ballistic missile technology.

KEY REQUIREMENTS

Pivotal to USCENTCOM's ability to respond to these regional threats has been your support for several key programs. Some of the most critical ones that require your continued support are highlighted here. They include: (1) prepositioning, (2) strategic lift, (3) theater missile defense, (4) International

Military Education and Training (IMET) and foreign military financing, and (5) improvements in command, control, communications, computers, and intelligence (C'I) infrastructure.

Prepositioning

Foremost among the programs critical to our mission is the prepositioning of equipment in the region which allows us to quickly link up personnel with equipment in theater. Having completed the fielding of a brigade set of equipment in Kuwait, we must now press forward to establish a second brigade set with a division base in Southwest Asia. This second set of equipment will dramatically increase our military capability in the region, adding flexibility and the requisite firepower and command and control in the early phases of a military operation. We need your support for the MILCON to house this equipment. Similarly, we should continue to pursue the prepositioning of a third set of equipment in the region, which will provide us with a heavy division's worth of equipment prepositioned forward. This presence will serve as a clear signal of American resolve to contain potential adversaries and will greatly enhance our warfighting capability. Land basing promotes access, stability, and coalition solidarity in the region.

Strategic Lift

Of comparable importance, strategic lift is essential to the successful implementation of our strategy. It is the critical lifeline for the Central Command, and vital to the success of our operations. At over 7,000 air miles and 8,000 sea miles, the extraordinary distances from the U.S. amplify the immense difficulties of moving a force in response to a regional crisis or contingency. As has again been demonstrated during recent operations in the Gulf region and in Somalia, strategic lift must remain a high priority.

Operation VIGILANT WARRIOR saw the first operational use of both the C-17 and the Army Prepositioning Afloat, and both programs met our expectations. Your continued support of the C-17, Fast Sealift Ships, and the RO/RO upgrade to the Army prepositioned equipment afloat is vital to our ability to close forces quickly in the theater. Although not tested during VIGILANT WARRIOR, our Ready Reserve Fleet must not be allowed to slip back into the questionable readiness posture of the pre-DESERT SHIELD/DESERT STORM days.

Theater Missile Defense

The continued proliferation of ballistic missiles and weapons of mass destruction, combined with the relative ease with which potential adversaries can enhance armaments through purchases of "off-the shelf" technology, calls for enhanced theater missile defenses and space-based capabilities that will protect U.S. forces, support our strategy, and facilitate warfighting. The priority over the next ten years should be to establish a multi-layered missile defense founded on the lower-tier Patriot Advanced Capability III, with a variant for naval defense; upper-tier Theater High Altitude Area Defense (THAAD); and highly mobile point defense Corps SAM (Surface-to-Air Missile) to protect ground forces maneuvering rapidly over extended distances. We must also devote resources to detecting unmanned aerial vehicles as well as cruise and short range missiles; to enriching the missile tracking capability of our satellite program to provide rapid, highly accurate flight data on enemy missile launches; to expanding our acquisition of theater-based capabilities to directly downlink satellite data for intelligence and rapidly transmitting it to subordinate units; to broadening our satellite communications architecture to ensure that it meets future demands; and to fielding interoperable systems that support joint and combined operations. Your support for these initiatives is essential to their achievement.

International Military Education & Training and Foreign Military Financing

Over the years, the United States has profited greatly from investments made in the International Military Education and Training (IMET) program and Foreign Military Financing (FMF). Both of these activities have provided the U.S. government opportunities throughout the world and in particular within the Central Region to assist in the development of foreign militaries, gain access, deter conflict, and promote stability and democratic ideals. Both of these programs have suffered from reduced funding over the last few years. We strongly encourage a reconsideration of these programs and increasing funds to assist our friends, enhance access, facilitate implementation of our theater strategy and realize U.S. goals for the region. By promoting respect for human rights, civilian control of the military, and democratic ideals, while enhancing self-defense capabilities, we decrease the chances of a conflict today and tomorrow that might result in the commitment of U.S. forces abroad.

Improvements in Command, Control, Communications, Computers, and Intelligence (C⁴I) Infrastructure

The limited infrastructure in the USCENTCOM area of responsibility, combined with the fact that our headquarters is

located in the Continental U.S., create significant C'I challenges. Our C'I systems and architecture must allow us to effectively gather, process, distribute and display information at all decision making levels, whether we are providing command and control for a Joint Task Force from CONUS or fully deployed for a Major Regional Contingency. The timely delivery of high quality, pertinent intelligence to the commander in the field is key to military success.

Robust satellite systems for communications, intelligence, warning, positioning, and meteorology are essential to our success. In addition, technological advances are allowing us to make great strides in interoperability and corresponding joint effectiveness. Interoperability and joint system use have improved, and support from the national intelligence community remains essential to providing correlated, accurate intelligence from all sources to build assessments about regional activities. Several key systems are being implemented and your support is needed to provide sufficient funding to complete their implementation in a timely manner. Key examples are the Joint Deployable Intelligence Support System (JDISS), the Joint Worldwide Intelligence Communications System (JWICS), and the Global Command and Control System (GCCS). All of these replace and integrate the functionality of multiple stovepipe systems into standard DoD wide capabilities.

Finally, it is essential that the USCENTCOM Joint Intelligence Center's budget request for FY96 and FY97 be fully supported for us to meet the full range of intelligence requirements for warfighting and the overall DoD Intelligence Production Program.

THE U.S. CENTRAL COMMAND

On the strength of these programs and others, United States Central Command is ready to defend America's interests in the Central Region today and is looking forward into the 21st Century. We are guided in the performance of our mission by the following "vision" for the future:

U.S. Central Command: A flexible and versatile command into the 21st Century . . . Trained, positioned, and ready to defend the nation's vital interests, promote peace and stability, deter conflict, and conduct operations spanning the conflict continuum; and prepared to wage unrelenting, simultaneous joint and combined operations to achieve decisive victory in war.

To achieve this vision, U.S. Central Command has developed a theater strategy that relies on a combination of overseas presence, U.S. power projection capability, and carefully cultivated regional relationships. Our continued success in this effort requires patient, long-term national dedication to the defense initiatives and commitments that we have undertaken over the past several years.

REGIONAL OVERVIEW

The nineteen nations of the Middle East, northeast Africa and South Asia that make up the U.S. Central Command area of responsibility cover a vast geographic area. Larger than the continental United States, it stretches from Egypt and East Africa, through the Arabian Peninsula to Pakistan, and includes the waters of the Red Sea, Gulf of Aden, Gulf of Oman, and Arabian Gulf.

It is a region rich in culture and history, home to the birthplace of civilization, 427 million people making up seventeen different ethnic groups, 420 major tribal groupings, six major languages with hundreds of dialects, and the birthplace of three of the world's major religions.

It is a region that has suffered repeatedly from natural disasters, political upheaval, and war, and a region of stark contrasts. These include wealth and poverty, stability and unrest, some of the world's highest mountains and greatest rivers along with some of the world's most barren deserts.

It is a region that, owing to its key maritime routes and abundance of oil, is of vital interest to our nation and to the international community. Nearly two-thirds of the world's proven

oil reserves are located in the region, with worldwide economic significance.

It is a region where disputes over borders and unequal distribution of resources, particularly water and oil, can explode suddenly into conflict.

It is a region where an arms race in weapons of mass destruction and an assortment of different types of ballistic missiles threatens to intensify old animosities, fears and hatreds among traditional rivals. Proliferation of such weapons represents a significant peril that could threaten U.S. and allied military forces, undermine regional and international resolve to confront belligerents, and unhinge the U.S. regional strategy.

It is a region where securing our nation's vital interests is complicated by lines of communications extending 7000 miles between the continental United States and the Gulf; Iraq's ability to threaten Kuwait within hours; Iran's ability to intimidate its neighbors with its growing air, naval and missile forces; the lack of formal treaty alliances; the requirement to balance U.S. and allied military requirements with cultural and political sensitivities of regional states; and the need to be able to fight, maintain, and communicate in rugged terrain and harsh climate.

These regional dynamics and threats require United States Central Command to adopt a theater strategy that capitalizes on the social, political, economic, and military elements of our national power.

USCENTCOM STRATEGY

The National Security Strategy (NSS), National Military Strategy (NMS), and Joint Strategic Capabilities Plan (JSCP), identify key U.S. interests and Central Command's tasks, and provide a basis for our theater strategy. In keeping with these guidelines, U.S. Central Command focuses on promoting regional stability by reassuring its friends, deterring conflict, and maintaining readiness to fight and win. These concepts are imbedded in our mission:

- Promote and protect U.S. interests
- Ensure uninterrupted access to regional resources
- Assist friendly states in providing for their own security and contributing to collective defense; and
- Deter attempts by hostile regional states to achieve geo-political gains by threat or use of force

To overcome the many security challenges of the Central Region, we endeavor to establish conditions in peacetime that

promote stability, deter conflict, and provide the mechanisms for prevailing in combat operations, if necessary.

The success of diplomatic and military activities in the region requires actions that stress U.S. partnerships with regional states and coalition building. One of our nation's great success stories over the last decade is the durability and depth of the relationships and friendships that our military leaders have forged with their regional counterparts. These relationships support achievement of strategic ends, facilitate implementation of our theater strategy, and provide access to the region.

Achieving these partnerships and building coalitions is made possible by a long-term and flexible, three-tiered approach to deterring aggression. Tier I calls for each country to bear primary responsibility for its own self-defense. Next, if aggression occurs, friendly regional states should provide a collective defense known as Tier II. Under Tier III, the U.S. and other allies from outside the region stand ready to form a coalition to defend common interests in the region, if necessary.

This concept underlies a theater strategy supported by five pillars. These include: (1) forward presence; (2) combined exercises; (3) security assistance; (4) power projection capability from the U.S.; and (5) readiness to fight. Taken

together, these five pillars and their inter-relationships describe the major activities that this Command pursues to accomplish assigned missions.

The first three pillars - forward presence, combined exercises, and security assistance - comprise the overseas presence portion of our strategy and facilitate our continued engagement in the region.

Forward presence demonstrates U.S. commitment, strengthens deterrence, and facilitates transition from peace to war. Naval forces are critical to our long-term forward presence because of their flexible offshore stationing. As a result of the Gulf War, and more recently our resolve demonstrated in Operation VIGILANT WARRIOR, presence ashore has been expanded. Air forces remain deployed in the region to deter aggression and to enforce UN resolutions under Operation SOUTHERN WATCH. Patriot air defense batteries and Special Operations Forces (SOF) and other Marine and Army forces conducting frequent exercises add to our presence. Based on our VIGILANT WARRIOR experience, prepositioned equipment and supplies for heavy armored forces, and supporting military construction, have become increasingly important elements of our forward presence. These stocks reduce the strategic lift demands inherent in deploying significant combat forces and improve responsiveness to our forces in the region.

The carrier battle group (CVBG) and the amphibious ready group (ARG) with its Marine Expeditionary Unit (MEU) have continued to be the mainstay of naval operations in the Central Region throughout the year. Inclusion of attack submarines in deploying CVBGs provides an added dimension of strategic capability through monitoring and protecting sea lines of communication and enhancing strike capability with an increased presence of Tomahawk Land Attack Missiles (TLAMs). Because of their limited footprint, strategic agility, calculated ambiguity of intent, and major strategic and operational deterrent capability, naval forces are invaluable. Naval operations this year have included enforcement of United Nations Security Council Resolutions, support for Somalia operations, and Operation VIGILANT WARRIOR. Our ability to rapidly move these forces in 1993 and again in 1994 from the Mediterranean Sea and the Arabian Gulf to positions off the coast of Somalia and Kuwait demonstrates extraordinary utility and versatility.

Providing support for UN sanctions against Iraq, operations in Somalia, and 37 joint and combined exercises, the CVBG, in particular, has been an unmistakable sign of U.S. commitment and resolve in the Central Region. The ARG/MEU's immediate response to Iraq's hostile posture in October 1994, complemented by the rapid deployment of Army forces falling in on prepositioned equipment in Kuwait and the Air Forces in the region, capitalized on the synergism of joint operations and placed a combined arms

team forward that effectively deterred Saddam from further aggression.

Air operations over southern Iraq are conducted by Joint Task Force Southwest Asia (JTF-SWA), consisting of over 100 U.S. aircraft along with a smaller number of allied, aircraft. Since commencing operations in August 1992, JTF-SWA has flown close to 60,000 sorties, nearly two-thirds of them over Iraq. With its carefully selected mix of reconnaissance, air-to-air, air-to-ground, and support aircraft, this force enhances regional defensive capabilities, facilitates rapid build-up of U.S. combat naval and air power during crisis, and is capable of inflicting significant damage on enemy forces in the first hours of hostilities. Furthermore, air operations involving regional forces strengthen relations with regional friends. All of these benefits of forward positioned air forces were demonstrated in Operation VIGILANT WARRIOR, where presence facilitated rapid reinforcement and signaled Iraq and other would be aggressors that the U.S. was capable of unleashing punishing attacks against its foes. We are convinced that forward positioning of U.S. air and other forces provides a valuable deterrent to aggression in the region.

More limited in scope than our daily sea and air operations, ground operations are, nonetheless, an essential dimension of our overseas presence. Deterrence of potential adversaries requires

that we maintain a credible capability to defeat ground offensives. This can only be obtained by synchronizing joint and combined air, sea, space, and ground operations. The positioning of Patriot batteries in the region emplaces a credible defense against enemy ballistic missiles. An interim measure, these systems may eventually be withdrawn as regional countries field their own weapons. Additional forward ground presence is afforded by frequent exercises by Army and Marine forces, complemented by other activities by Special Operations Forces (SOF).

Significant is the prepositioning of heavy Army equipment in theater. In particular, the brigade set in Kuwait, combined with a robust exercise program, allows us to readily close into the theater a lethal forward positioned combat force early during a crisis. In this fashion, we establish conditions conducive to blunting an attack and creating conditions to seize the initiative. As mentioned previously, we are moving forward with plans to augment this capability by constructing facilities for a second brigade set of Army equipment in Southwest Asia and are examining the possibility of placing a third set elsewhere in the area. Collectively, this would place a full Army division on the ground in short order; this enhanced ground combat capability will ensure U.S. military flexibility, enabling us to promote stability in the region and reduce risks during crises.

Our prepositioning program also includes Air Force and Navy equipment stored throughout the region. During the last three years, great progress has been made in concluding Defense Cooperation Agreements (DCA's) and in establishing storage sites for Air Force bare base sets (Harvest Falcon), Navy forward logistic sets, water and fuel distribution equipment, medical supplies and infrastructure, support vehicles and equipment, and rations. Stockpiling this material reduces strategic lift requirements, decreases deployment times, and provides critical sustainment early during the force build-up.

Success in all of these endeavors requires your support and consistent, patient, long-term negotiations in order to achieve the proper blend of U.S. and host-nation commitment and responsibility sharing to minimize U.S. costs.

The benefits of forward presence are complemented by our second pillar, combined exercises. Involving all of the Services, this effort offers over 100 joint and combined exercise opportunities annually, to include numerous naval and special operations exercises, BRIGHT STAR in Egypt, the INTRINSIC ACTION in Kuwait, and the ULTIMATE RESOLVE series of exercises. Through such activities, we maintain access, advance interoperability with regional partners, enhance forward presence, and improve the individual and collective military capabilities of the GCC states. Over the last few years, we have witnessed measured

progress in the ground force capabilities of our regional partners, and even greater improvement in their air, naval, and special operations capabilities.

We expect to see continued operational improvement over the long term as regional military leaders modernize their forces and gain more experience working with the U.S. and with one another. Continued improvement will allow more rigorous and demanding trilateral and multilateral command post and field exercises --- all focused on raising the proficiency of participants to operate collectively to secure common defensive goals. Throughout the AOR, combined exercises are the mechanism for providing U.S. forces valuable training in this distinctly different environment, assisting friendly states in satisfying legitimate defense needs, and increasing U.S. access to the region.

Our third pillar, security assistance, provides an additional means of improving defense capability of regional friends, training regional military forces, promoting interoperability, gaining access, strengthening military to military relationships, and increasing over time the ability of states to provide for individual and collective defense. It includes four major elements: foreign military sales, foreign military financing, IMET, and mobile training and technical assistance field teams. Such activities support our aim of

building regional defensive arrangements while providing a degree of U.S. control over arms transfers.

Since 1990, foreign military sales (FMS) in the Central Region have accounted for a large portion of total U.S. military sales abroad. Through FMS, regional friends purchase a wide assortment of military equipment, training, maintenance, and follow-on logistic support. A portion of FMS is dedicated to military construction that supports our forward presence and allows rapid reinforcement. The security assistance program is reinforced by the more limited foreign military financing programs that provide grants to regional states. Past benefits of military funding in assisting foreign friends and maintaining access justify its cost and demonstrate the importance of continued support. Both military sales and military funding promote interoperability and regional self-defense.

To enhance the warfighting capability of regional partners, we should continue to modernize their forces. Effective employment of new equipment is achieved through training teams and IMET initiatives. Through more than 680 personnel deployed in the region on training teams, we are able to increase technical and tactical proficiency of regional military forces and their leaders. Such teams provide an ancillary service of strengthening regional friendships and bolstering our forward presence. Our efforts in this area are reinforced by the

International Military Education and Training (IMET) program that educates regional military leaders in U.S. military institutions. Through this effort, we improve the military capabilities of foreign military leaders, increase trust and friendships with regional states, and help familiarize foreign military and civilian leaders with America's military and its democratic values and culture. Key points stressed in this training include civilian control of the military, preservation of human rights, and the workings of democratic institutions. There are enormous long-term benefits for our own country as a result of this education and formulation of ideals and relationships.

Taken together, these three pillars allow the U.S. to maintain a visible presence in the region and respond to crises spanning the spectrum of conflict. In the event of a crisis, forces and equipment forward deployed in the region become the foundation for executing flexible deterrent options (FDOs) which hopefully are successful in resolving the crisis, and if not, serve as the vanguard for follow-on forces.

The fourth pillar of our theater strategy, power projection, defines activities and qualities of U.S. military forces that support rapid projection of forces from the U.S. into the Central Region and preparation of those forces for combat operations. Within this context, U.S. Central Command is keenly interested in the Air Force's C-17 program, the Navy's Fast Sealift Ships and

Ready Reserve Force, the Army's brigade set of equipment afloat (currently 12 ships), and the Marine Corps' Maritime Prepositioning Force (MPF). This latter force includes three Maritime Prepositioning Squadrons (MPS), each able to support a Marine Expeditionary Force (Forward) of nearly 15,000 personnel with supplies and equipment for 30 days. Similarly, the Command can rely on the Air Force's four logistic ships, carrying supplies and ammunition. With these capabilities, USCENTCOM can fly a heavy Army brigade's personnel to link up with equipment stored in Kuwait, and additional forces to link up with Army and Marine equipment arriving aboard prepositioning ships.

To sustain all of our forces in theater, the Command supports advances in the full range of power projection logistics and will exercise these activities frequently in the year ahead. Initiatives include gaining access to and exercising air bases and ports worldwide that will facilitate deployment of forces to the Central Region, procuring automation that ensures asset visibility providing real-time location of in-transit equipment, and enhancing port-opening equipment robustness. To ensure that all of these activities are properly sequenced and priorities established, Central Command is continuing to refine plans, review force deployment requirements, and clarify movement priorities.

The requisite command, control, communications, computers, and intelligence (C²I) infrastructure that is needed to carry out assigned military tasks allows U.S. Central Command to execute a full range of FDOs to preclude hostilities. It also enables us to limit conflicts when they occur, and conduct decisive combat operations if required.

The fifth and final pillar of our theater strategy, readiness to fight, stresses activities that ensure that the Central Command headquarters and individual Component Commands possess standard operating procedures that facilitate rapid deployment during crises, for conducting synchronized joint and combined operations, and waging high tempo warfare. To ensure readiness, we are constantly engaged in reviewing and refining our war and contingency plans. In addition, we conduct warfighting conferences with Component Commanders and their staffs, perform joint and combined training, and conduct command post and other exercises to maintain enhanced levels of readiness.

Also critical to our readiness to fight is the vital contribution made by the Reserve Component of our Armed Forces. Reserves complement active duty forces by bringing important capabilities that facilitate early access and continued sustainment. Individual Mobilization Augmentees (IMA), air guard

crewmembers and others perform key functions in staff operations, airlift, port openings, civil affairs and many other areas.

Continued support for professional military education (PME), both joint and Service, lays the groundwork for an officer corps which can think creatively, reason critically, and act decisively in the face of ambiguity and uncertainty. Our nation's PME institutions make direct and enduring contributions to the professional competence of our rising military leaders and deserve our strong support in the coming years. We cannot afford to reduce the quality of PME at a time when its fruits are in highest demand.

Through the five pillars of our theater strategy, U.S. Central Command promotes regional stability, maintains access, and deters aggression. We also establish the military conditions required to limit the intensity of conflict should deterrence fail, and finally, to fight and win when required. Activities undertaken in the five pillars position this command to transition smoothly and seamlessly from peace to war.

THE WARFIGHT IN THE CENTRAL REGION

As we deal with the demanding peacetime requirements in the Central Region, we must remain focused on the fundamental purpose of our military forces: To fight and win our nation's wars. If deterrence fails, USCENTCOM must be able to conduct combat operations spanning the conflict continuum, from humanitarian assistance to high intensity war, against a full range of potential military adversaries, to include insurgents, terrorists, mechanized ground formations, air and naval forces, and ballistic missiles and weapons of mass destruction. While we recognize that each form of conflict and type of adversary calls for an appropriately tailored response, we need to address the major threat to this nation's vital interests: high-intensity war in the Central Region.

In this context, capitalizing on U.S. advantages in technology, weapons, leadership, and quality people reduces risks to U.S. and coalition forces and minimizes friendly casualties. Our military forces take advantage of the complementary capabilities found within each of the Services to advance across great distances; strike at enemy weaknesses; launch unrelenting precision deep strikes against the enemy's military, industrial, and information infrastructure; conduct continuous, all-weather joint and combined operations; and simultaneously assault tactical, operational, and strategic objectives. The speed,

precision and flexibility associated with such operations require commanders to exploit the advantages of the entire battle space, maximizing the benefits derived from each Service.

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U.S. Central Command's war and contingency plans and standard operating procedures build on the Command's peacetime activities to address the exigencies associated with single and dual major regional contingencies as well as military operations at the lower end of the spectrum. Using peacetime partnerships and regional access as a foundation, we are prepared to forge coalitions and integrate U.S. and friendly military capabilities to confront regional aggressors. As tensions heighten, we rely on the three-tiered defensive structure established in peacetime to elicit regional support for coalition activity and create the military structures needed to defeat adversaries.

Our war plans envision employing U.S. and coalition forces in concert to safeguard U.S. and allied interests. Given ambiguous early warning and early deployment decisions, U.S. military forces would undertake a series of flexible deterrent options in concert with regional partners to send a clear signal of resolve to hostile powers. If these measures prove inadequate, the U.S., with coalition support, would continue to deploy air, sea, and ground forces to defend against attackers. If such actions fail to blunt enemy action, the U.S. would deploy

additional forces and launch a joint and combined offensive to quickly overwhelm the enemy and restore regional stability.

CONCLUSION

For years the United States has been successful in securing its vital interests in the Central Region and in progressing toward realization of long-term regional aims. We should honor the superb work of U.S. personnel who have performed a great service by forging close relations with regional friends, negotiating basing agreements and host-nation support for our operations, and putting in place the structure of our theater strategy. We should take particular pride in the work of military men and women who have toiled long hours, often under difficult conditions, to improve the capabilities of our friends, bring famine relief and security to Somalis, carry out maritime intercept operations in support of UN sanctions against Iraq, fly air operations as part of SOUTHERN WATCH, and so ably defend our nation's interests in this complex region. Continuing in their fine tradition with a smaller force will require us to recruit and retain only the top quality personnel, making your support for professional military education and quality of life initiatives an invaluable contribution to maintaining our high standards of professionalism.

Threats to America's vital interests in the region represent a grave challenge for our nation now and for the foreseeable future. To meet these demands, U.S. Central Command employs a long-term strategy and undertakes daily activities that send a clear signal to friends and foe alike that we are resolute in confronting threats to regional stability.

We at U.S. Central command are committed to meeting the challenges of preserving U.S. interests in this challenging and vital portion of the world. We look forward to working with the military Services, Department of Defense and members of Congress in the coming months to realize our nation's goals in the Central Region.

Mr. BATEMAN. Now we will hear from Rear Admiral Lair, U.S. European Command. Welcome, Admiral, please proceed.

**STATEMENT OF REAR ADM. JAMES A. LAIR, USN, DIRECTOR
OF OPERATIONS, U.S. EUROPEAN COMMAND**

Admiral LAIR. Thank you, Mr. Chairman, Mr. Sisisky, and distinguished members of the Military Readiness Subcommittee. It is a pleasure to appear before you today to discuss the operations of the U.S. European Command.

The European theater has been described as the theater in conflict. The OPTEMPO is the highest since World War II, with one-third of the force structure we had 5 years ago.

I would like to quickly review the ongoing operations. Operation Provide Comfort is a humanitarian operation in northern Iraq, and in the enforcement of the no-fly zone. The night flying Sharp Guard, our NATO operations in support of U.N. Security Council resolutions in the former Yugoslavia, the Night Flight enforces the no-fly zone and provides close air support for the UNPROFOR forces while Sharp Guard enforces maritime sanctions. ABLE SENTRY is a contingent of 550 United States soldiers in the former Yugoslavia and Republic of Macedonia. Operation Provide Promise supplies food, medicine, and other critical materials to the people of Bosnia and Herzegovina.

We are also working closely with NATO in preparing plans for possible withdrawal of UNPROFOR Forces from the former Yugoslavia. Last summer, EUCOM conducted Operations Support and Hope in Rwanda. Our efforts reduced the death toll from 6,000 a day to less than 200 a day. Equally important, EUCOM transitioned the operation to other nongovernmental and private agencies and redeployed forces within 60 days from the start.

As you can see, EUCOM is fully engaged in a wide range of operations. The challenge today is maintaining our readiness while engaged in these high-tempo operations. We should not view readiness in a vacuum. The fall of the Berlin Wall has fundamentally changed the security environment and the way we employ our forces. Measuring and maintaining the readiness of EUCOM Forces in this new environment is a complex undertaking. High readiness requires adequate and timely resources across the spectrum of programs. We must fund our contingency operations in a timely manner or we are forced to mortgage valuable training opportunities which will impact near-term readiness. It requires our continuing investment in the quality of life for our troops if we are to maintain long-term readiness. And your support in providing 100 percent CHAMPUS coverage and an overseas dental plan was a tremendous boost in European quality of life.

Other readiness priorities must include maintaining materiel readiness, pursuing modernization, and ensuring we have adequate mobility to respond to crises. Guard and Reserve Forces have been an integral part of EUCOM operations. This year, Guard and Reserve Forces from 11 States are scheduled to augment our forces in contingency operations in both Provide Comfort and Deny Flight. This augmentation has reduced our theater TDY rates to acceptable levels, around 120 days a year. Reserve Forces allowed

only six USAFE crews to be away from home at Christmas time. This is the first and the lowest rate in over 5 years.

Readiness is the top priority of every military commander. We must provide the resources needed to execute our high pace of operations. Above all, we must never forget that it is our people who provide this Nation with the ability to fight and win.

I sincerely appreciate this opportunity to appear before you here today. This committee has always responded magnificently to the needs of our dedicated men and women in uniform and on their behalf I thank you. I look forward to your questions.

Mr. BATEMAN. Thank you very much, Admiral Lair.

Statement of
Rear Admiral James Lair
Director of Operations
United States European Command



before the
House National Security Committee,
Readiness Subcommittee

March 9, 1995

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The House National Security Committee, Readiness Subcommittee

Introduction

Mr. Chairman and distinguished members of the House National Security Committee, Readiness Subcommittee, it is a privilege to appear before you today to discuss operations in the United States European Command. I welcome this opportunity to provide my perspective on readiness in the EUCOM theater of operations -- a theater that spans Europe, parts of the Near and Middle East, the Northern African littoral, and sub-Saharan Africa containing half of the world's countries and stretching 7,000 miles from the tip of Norway to the Cape of Good Hope. To put readiness into perspective, I would like to provide an overview of theater operations, define what EUCOM needs to maintain a high state of readiness, and discuss the impact of contingency operations on readiness in this theater.

Overview

As I look back over this last year, I am impressed by the extent of our positive accomplishments. While peace still eludes us in Bosnia, we need to recognize that there has been fundamental and positive change in the security environment in EUCOM's area of responsibility. We have gone from a reactive to a proactive command and every day are consolidating the gains for democracy brought about by the collapse of the Berlin Wall and the demise of communism. Let me be more specific.

EUCOM has continued to maintain a high state of readiness in the force. Even as we drew down the size of the forward deployed force from 314,000 to approximately 100,000, EUCOM demonstrated it can still react to crisis across the conflict spectrum. This past year EUCOM was engaged in numerous lesser regional operations and our troops performed superbly. However, as the force structure declines, there is concern about personnel turbulence as well as resources matching requirements. Both factors will impact on our future readiness if they are not managed properly.

Today, EUCOM forces are part of NATO operations enforcing UN Security Council Resolutions in the Adriatic and in the skies over Bosnia; multinational operations conducting

airland and airdrop flights to feed the hungry in Bosnia-Herzegovina; and multinational operations protecting the people of Northern Iraq from the brutality of Saddam Hussein.

When tragedy struck last summer in Rwanda, EUCOM within hours began moving forward deployed forces 6,000 kilometers to Central Africa. Once there, a joint force of water purification teams, engineers, medics, logisticians, airborne troops, and airlift specialists stopped the dying of thousands of Rwandans. In one week the death toll dropped from 6,000 per day to 500, and within 30 days, it had fallen to less than 200. Equally important, the EUCOM force worked with UN relief organizations and non-governmental organizations in a constructive way -- within 60 days turned the operation over to the UNHCR and all U.S. forces were withdrawn. Not one soldier, airman, sailor, or marine was lost during Operation SUPPORT HOPE.

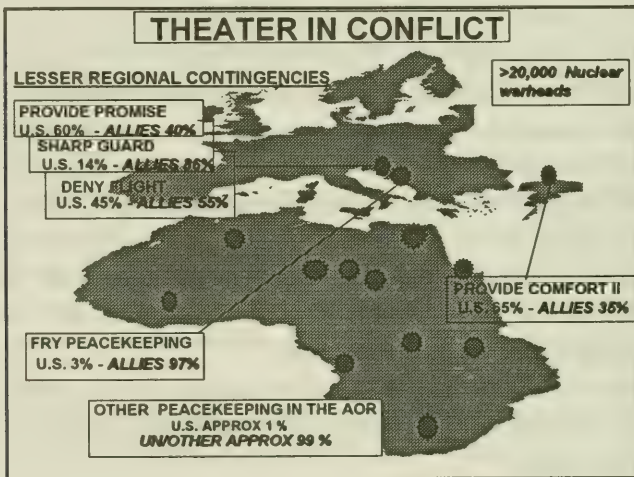
U.S. forces also participated in three Partnership for Peace exercises last year. EUCOM also conducted a bilateral exercise with Russian troops in Russia. This engagement strategy promotes mutual trust and confidence among former adversaries and an opportunity to develop standard procedures and doctrine among all nations of Europe and the Former Soviet Union.

The list of achievements could go on. But the point is that EUCOM and NATO have changed and are adapting to the challenges of a new security environment. NATO and its member nations achieved a great success five years ago with the collapse of the Berlin Wall and the Iron Curtain. But that event was not the end of our nation's nor NATO's mission. It was only the end of one phase and the beginning of another. How we as a nation and as an Alliance respond in the remainder of this decade will determine the true security of the United States in the 21st Century. Indeed the United States can be justifiably proud of its role in bringing about this revolution for democracy. It truly was brought about by the constancy and character of the American commitment. But it is not good enough to just bring about the revolution -- it is what you do afterward that is equally important in consolidating the gains for democracy. We as a nation and as a command must stay engaged in Europe -- albeit at reduced levels -- if we do not want to repeat the mistakes made twice in this century.

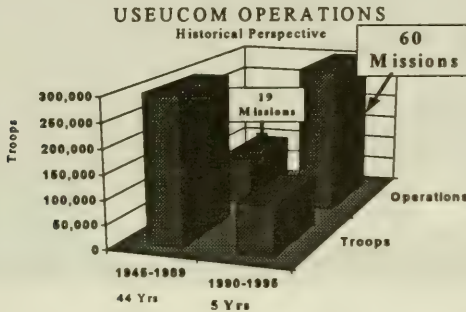
We could not have realized the great events of five years ago without the continuing support of Congress, and on behalf of all those who have and are serving in the European Command, I thank you for that support.

Theater in Conflict and Transition

The EUCOM theater is still a theater in conflict as well as a theater in transition. Ethnic conflicts in the former Yugoslavia are painful reminders that man's inhumanity to man continues. Recent events in Chechnya exposed the fragility of democracy in Russia as well as a deep concern by Russia's neighbors. There are still more than 20,000 nuclear warheads in the former Soviet republics. Instability and uncertainty are the norm, not the exception. Stability is not assured. Institutions that make democracy work -- economic, political, judicial, social, and military -- take time to evolve. Terrorism and fanaticism still are prevalent in the Middle East and the Northern littoral of Africa and threaten the fragile peace between Israel and its neighbors. Disease and starvation are rampant in sub-Saharan Africa and pose a long-term danger to the stability of that troubled continent. Indeed the world is still a dangerous place. Clearly the United States military and in particular the US European Command are not and should not be the world's policeman. But US leadership is required in creating the conditions which will reinforce our ideals and values and assure our security and that of our allies into the 21st Century.



USEUCOM, along with our friends and allies, is actively engaged in operations throughout this theater. These operations drive our OPTEMPO and PERSTEMPO higher than ever before. USEUCOM and NATO participated in more missions in the last five years than in the previous 45 years. On any given day, USEUCOM is participating in no fewer than four "lesser regional operations," sometimes simultaneously supporting other nearby combatant commands.

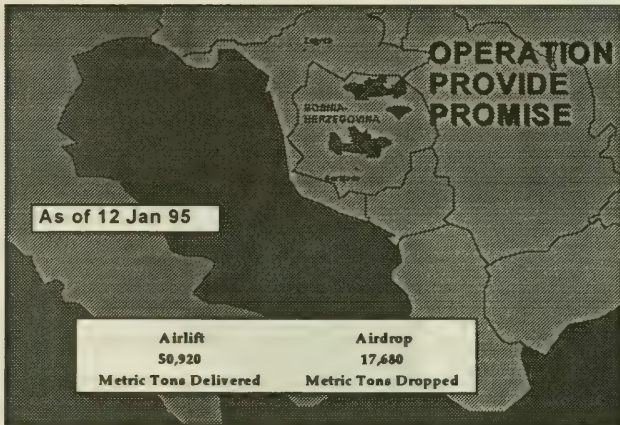


Since August 1993, USEUCOM planned 32 operations and actually executed 13 of those, everything from non-combatant evacuation operations in Rwanda to our operations in the Balkans.

Current Operations

The peace operations in the Former Yugoslavia, by which we aim to help achieve a negotiated peace settlement, are examples of military involvement in a conflict that requires a long-term political solution. While this solution will not occur overnight, our forces are containing the conflict, supporting sanctions imposed by United Nations resolutions, and meeting humanitarian assistance needs on a daily basis. U.S. forces, in concert with NATO forces, have not only saved lives and relieved the suffering of thousands of people, but have been directly responsible for preventing this conflict from escalating. For example, in

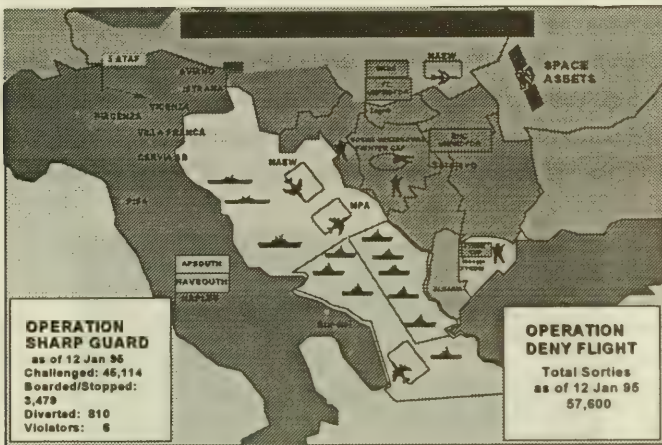
February and April of 1994, in response to a UN request, and to relieve the senseless bombardment of Sarajevo and other safe areas, the North Atlantic Council declared exclusion zones to protect the people of that region.



Operation PROVIDE PROMISE involves daytime airlift missions to Sarajevo and nighttime airdrops to exclusion zones over Bosnia-Herzegovina. As of 12 January 95 the U.S. had flown 4,131 sorties into Sarajevo (36% of the 11,321 total sorties) and delivered 50,920 metric tons (MTONS) of cargo. By that same date the U.S. had airdropped 17,480 MTONS of food and 200 MTONS of medicine to needy people in Bosnia (Figure 6). PROVIDE PROMISE is a prime example of sharing risks, roles, and responsibilities among our Allies. U.S. aircraft and crews participate in the Sarajevo airlift with those of four other countries (Germany, Canada, France, and the United Kingdom) and in humanitarian airdrops with two other countries (Germany and France).

In the Adriatic, two U.S. surface ships are enforcing economic sanctions with 18 other Allied surface ships from 13 countries in the NATO Operation SHARP GUARD (Figure 7). U.S. participation in this operation changed from enforcing the UN embargo to enforcing

sanctions as of November 15, 1994. As of 12 January 1995, the Allied ships had challenged a total of 45,114 ships, actually stopping or boarding 3,479 of those.

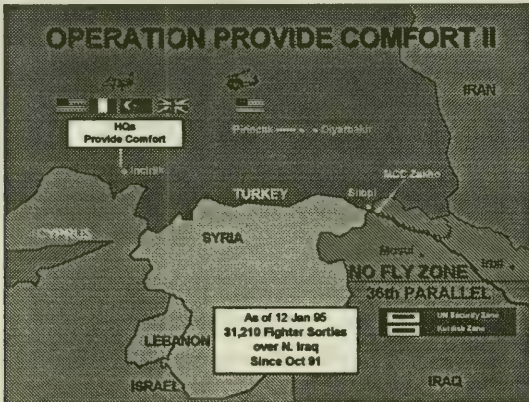


Operation DENY FLIGHT is another example of the concept of shared contributions for common security interests. NATO is executing this operation in support of the UN Security Council Resolutions calling for the protection of airspace over Bosnia as well as UN forces on the ground. Our aircrews have flown close air support for embattled UN troops, saved thousands of lives in Sarajevo by enforcing the exclusion zone, and shot down four Serb aircraft caught in the act of bombing a Bosnian village. The many missions NATO has accomplished recently illustrate how the past 40 years of harmonizing and streamlining NATO tactical procedures paid off. The U.S. currently contributes 76 of the more than 167 NATO tactical aircraft involved in the No-Fly-Zone enforcement operation over Bosnia-Herzegovina. A total of 21,500 sorties have been flown as of 12 January 1995.

We also have people involved in many other aspects of the humanitarian and peacekeeping efforts in the Former Yugoslavia, including medical teams to support UNPROFOR personnel and approximately 500 personnel in the former Yugoslav Republic of

Macedonia as part of Task Force ABLE SENTRY. Of the peacekeeping troops in the Former Yugoslavia, however, U.S. personnel make up only about 3% of the total.

Another long-term humanitarian relief effort is Operation PROVIDE COMFORT, which is operating under a UN mandate to assist the Kurds in northern Iraq (Figure 8). Since Combined Task Force PROVIDE COMFORT's contributions to the relief effort began in April 1991, large quantities of relief supplies have been delivered—food, medical supplies, fuel, and shelter materials. Coalition fighters have flown 31,210 sorties in support of PROVIDE COMFORT since October 1991.



Operation SUPPORT HOPE in Rwanda demonstrated the key role forward presence plays in responding to a humanitarian crisis. Our primary goal, to stop the dying, was accomplished quickly and effectively. Our unique lift capability, logistics support and overseas bases helped make this operation a success. As the name of this mission implies, we *supported* other agencies by providing these unique capabilities. We ensured our mission statement was clear and concise, which prevented "mission creep" and provided an orderly and expeditious exit strategy. In short, we responded quickly, accomplished our mission, turned

over our responsibilities as soon as other agencies were prepared to assume them, and exited. There is no residual U.S. military footprint in the Rwanda Area of Operations.

We also supported operations in the CENTCOM AOR. On 26 January 1994, we deployed the four ship Inchon Amphibious Ready Group into the CENTCOM AOR to support operations in Somalia. We again dispatched forces to aid the withdrawal of UNOSOM forces as the U.S. disengaged from Somalia. USEUCOM also took quick action by sending troops, again to the CENTCOM AOR, to reinforce Kuwait and Saudi Arabia and send Saddam Hussein a clear message of U.S. commitment and resolve.

Readiness

Conducting the many and varied operations in this theater requires a high state of readiness across a broad spectrum of requirements. The new security environment coupled with an austere budget means we have to employ our forces in new ways. Joint and Combined operations are the norm in USEUCOM, and measuring our unit's ability to meet our ongoing missions while maintaining traditional warfighting skills is a challenge. We are now measuring Joint, as well as Service readiness to ensure our forces are prepared to fight. There are three resources needed to maintain readiness; funding, forces and infrastructure.

Funding

Of the three resources needed to maintain readiness, the one that can have the most immediate impact is funding. O&M dollars are needed to maintain readiness, train and exercise our forces, and maintain our busy pace of operations. Unfunded contingency operations and theater transition costs drain those dollars and negatively affect training, readiness, and PERSTEMPO. We appreciate the supplemental contingency funding that we received this past year. But timing is critical and if funding arrives late, even if it is generous, we must cancel exercises, defer equipment and facility maintenance, delay or cancel contracts, or even pay for a contract we cannot afford to terminate. All of these factors would adversely

impact our combat readiness. I would like to thank this committee for its support in passing the FY 95 supplemental. This supplemental is critical to maintaining readiness through the fourth quarter.

Burdensharing legislation we have seen in recent years can also result in a reduction in readiness. Cuts made in the name of burdensharing are made with hopes of forcing our allies to pick up the difference. This type of legislation has proven ineffective in forcing allied payments and negatively impacts our readiness by cutting O&M funds or cutting our force structure. More importantly, our Allies contribute to protecting U.S. national interests in ways other than paying for host nation support. Our Allies contribute:

- More than 85% of the ships in SHARP GUARD
- More than 55% of the aircraft in Deny Flight,
- About 40% of the aircraft in Provide Promise and 35% the aircraft in Provide Comfort,
- 97% of the peacekeeping troops in the Former Yugoslavia and 99% of the peacekeeping troops throughout the AOR.
- 72% of the costs for the NATO Infrastructure Program,
- More than 70% of the NATO headquarters fund.

In addition, Germany, our largest host nation, contributed four times more than the U.S. to aid economic reform in the Former Soviet Union, which also benefits our interests. This is even more impressive considering the high cost of Germany's reunification. In Bosnia, it is our Allies' soldiers, 17,000 of them, who are on the ground within the range of Serb guns while the U.S. contributes approximately 500 troops in neighboring Macedonia. I urge the Congress to consider all the risks and burdens shared by our Allies, along with the impact to our troops and readiness, before considering future burdensharing legislation.

Forces

Maintaining an adequate force structure is key to both near term and long term readiness. Near term readiness is affected when contingency operations drive OPTEMPO and

PERSTEMPO to a point that prevents training to maintain readiness. EUCOM uses Guard and Reserve forces to augment our active duty forces, which reduces the high OPTEMPO and PERSTEMPO due to contingency operations. For example, OPERATION DENY FLIGHT commitments drove EUCOM A-10 crews to a TDY rate of more than 210 days per year. Guard and Reserve force augmentation reduced this to about 120 days per year. These forces have made valuable contributions to the EUCOM theater of operations.

Operation	FY 94	FY 95
DENY FLIGHT	18%	23%
PROVIDE PROMISE	48%	50%
PROVIDE COMFORT	8%	19%

U.S. Air Forces, Europe (USAFE), use of Reserve Component

Contingency operations also impact long term readiness. Over this last year, USAFE aircraft have flown an average of 600 hours per airframe, compared to the 350 hours per airframe during FY 90. Our ships have experienced higher than a 70% deployed OPTEMPO, with some as high as 90%, which compares to an average of 50-60% in FY 90. The increased use of our equipment has an impact on material readiness because it drains our supply system of spare parts and increases depot level maintenance requirements -- both are already in extremely high demand. More importantly, a consistently high PERSTEMPO negatively impacts the quality of life of our troops. This has the potential affecting our career retention, as well as making overseas tours for our troops undesirable.

We must take care our troops if we expect to maintain a quality force. Providing an acceptable quality of life for our servicemembers and their families is not only a long term investment in readiness, but our obligation. Achieving an acceptable quality of life for the troops and their families is CINCEUR's and my number one priority. People are our most valuable resource and constitute the backbone of our quality force. We must never break faith with our troops whose dedication and devotion are second to none. Our troops have endured many hardships while performing diverse missions at an extremely high operations tempo. All

of this was accomplished in the midst of the largest drawdown since World War II. In the end, it will be the dedication and professionalism of those who serve our country that will underwrite our commitment to national security. Our loyalty to our people will lay the foundation of their commitment.

Treating our servicemembers as they deserve and maintaining a high standard of training is not enough. An adequate force structure must be in place for us to be effective. While our approximately 100,000 EUCOM troops ensure we can respond to crises, we must retain the mobility to reinforce this or nearby regions to defend U.S. national interests. Funding the Services to improve mobility is a high priority. Mobility is even more significant considering the drawdown in Europe. Strategic lift, combined with prepositioned materiel, is critical to fighting or supporting any major regional conflict in or near the USEUCOM AOR. The C-17, our aging C-141s, C-5s and C-130s, and commercial aircraft, provide airlift for initial reaction forces and follow-on reinforcement and logistics. I strongly support the C-17, key to delivering critically important out-sized equipment directly to the battle front. Likewise, we must improve our strategic sealift capability to provide heavy reinforcement and sustain theater logistics. We also require sufficient amphibious lift to support a forced entry capability and a medium lift replacement helicopter for the Marines and Special Operations Forces.

Infrastructure

USEUCOM basing and infrastructure are essential to maintain our forward presence, give us access and support to this and nearby regions, and underwrite our commitments to our friends and allies. This proved critical during Desert Shield/Desert Storm where 95% of the strategic airlift, 90% of the combat aircraft, and 85% of the naval vessels were staged from or through USEUCOM's AOR. This would have been practically impossible without USEUCOM basing and infrastructure, to include equipment prepositioned in theater to supply reinforcing forces.

Our drawdown of facilities is near completion and will leave USEUCOM at 59% of our Cold War infrastructure levels. The facilities we retain allow future consolidation and

flexibility. Any facility not supporting our strategy and our missions is being returned to the host nation. We must, however, maintain our remaining infrastructure and provide essential construction projects to meet readiness and quality of life requirements. Military Construction (MILCON) is one of the key factors in maintaining an acceptable quality of life for our people. Above all else, we must maintain our commitment to our people by investing in the infrastructure necessary to meet their needs.

Conclusion

Readiness is the top priority of every military commander at every level of command -- for it is the direct indication of a warfighter's "worth." We must provide the resources our field commanders need to maintain readiness if we are to deploy them more frequently and ask more of them while they are home. We must never forget that it is our people who are the foundation of our ability to fight and win our nation's wars. We must invest in our long term readiness as well as our short term readiness to avoid a return of the "hollow force."

In closing, Mr. Chairman, I appreciate this opportunity to appear before you today. This committee has always responded magnificently to the needs of our dedicated men and women in uniform, and in their behalf, I thank you for the support your committee has consistently provided them and USEUCOM. I look forward to your questions.

Mr. BATEMAN. And now the anchorman, Admiral Fargo. Welcome, sir.

**STATEMENT OF REAR ADM. THOMAS B. FARGO, USN,
DIRECTOR OF OPERATIONS, U.S. ATLANTIC COMMAND**

Admiral FARGO. Mr. Chairman, I am the anchorman since I am the sixth to speak today. You also had the benefit of General Sheehan's testimony in the full committee yesterday. I will just summarize briefly and kind of update General Sheehan's comments.

In USACOM we are very concerned about the supplemental because, as you know, in 1993 when we revised the UCP, USACOM took combatant commands of about 80 percent of our Active Duty Forces, including the landing fleets and the air combat command at Langley, and the marine forces Atlantic, as well as the forces command. So, we are the principal bill payer for these contingency operations that we have talked about extensively today, and our four principal concerns: Haiti which has been discussed extensively; Cuba which was also discussed extensively yesterday; the counterdrug problem, and in keeping a close eye on the naval capability that still exists in the northern fleet.

Haiti obviously has gone well. I talked to General Joe Kinzer this morning who will take command of the U.N. mission on March 31. He says that that is well on track and he sees no problem in our ability to effect that transition on the 31st. As you know, that means we will have gone from a force of 20,000 troops in the initial interdiction effort in September down to the 6,000 that we currently have now down to a U.S. commitment of about 2,400 people in a period of 6 months.

Cuba, although most of the Haitian migrants have been returned, we still have almost 25,000 Cuban migrants in Guantanamo Bay. The troops have done a magnificent job of taking control of this situation, but there is no exit strategy and there is no budgeting for Guantanamo Bay in the future. So we are taking that million dollar a day bill out of hide.

In conclusion, I would like to say that I will be wrapping up 2 years as the Director of Operations for USACOM in about 2 weeks. And I look at pride with the collective effort of this whole group here represented today, because joint operations are very necessary, a coordinate team effort, more so today than ever. In each command, the personnel are absolutely committed to joint readiness and because of their commitment I have great confidence that we will ensure the readiness of our forces in the future.

Thank you.

Mr. BATEMAN. Thank you very much, Admiral Fargo.

For Release Only By The
Committee on National Security
Readiness Subcommittee
United States House of Representatives

*Statement of
Rear Admiral T.B. Fargo
Director for Operations
United States Atlantic Command*



*Before the
104th Congress
Committee on National Security
Readiness Subcommittee
United States House of Representatives
9 March 1995*

For Release Only By The
Committee on National Security
Readiness Subcommittee
United States House of Representatives

Mr. Chairman, distinguished members of the House National Security Committee Readiness Subcommittee, I appreciate this opportunity to testify on the issues and questions you are examining concerning the readiness requirements and concerns of the major operational commands. As requested, I will provide you a readiness assessment of forces in the United States Atlantic Command, some specific concerns we at USACOM have concerning mobility and sustainability, address the impact of contingency operations on our ability to meet Bottom Up Review (BUR) requirements, and conclude with an overview of some of the training initiatives that support the readiness assessment.

As part of the 1993 revision of the Unified Command Plan, USACOM has assumed Combatant Command (COCOM) of over 80% of our nation's active military forces. CINCUSACOM components making up this force include the Air Force's Air Combat Command, the Army's Forces Command, the Marine Corps' Marine Forces Atlantic and the Navy's Atlantic Fleet. This USACOM team demonstrates daily that we have the highest quality military force our Nation has ever fielded--capable of executing the many and varied missions required of them in today's complex national security environment.

CINCUSACOM's Atlantic Area of Responsibility (AOR) - the Atlantic bridge to Europe, the Southern Hemisphere and beyond - is complimented by the concurrent CINCUSACOM command of NATO's Allied Command Atlantic as Supreme Allied Commander Atlantic

(SACLANT), reinforcing the Alliance with the joint capability of CONUS forces.

The Command's newest mission - *Provide joint trained and ready military forces where needed throughout the world in support of Atlantic theater and forward CINC requirements, and ensure those forces are trained as joint units capable of carrying out their assigned tasks* - is its most challenging task.

But USACOM has several other vitally important missions including:

- Identifying, training, and facilitating deployment of joint force packages in support of peacetime presence, contingency response, peacekeeping, or humanitarian assistance operations;
- Developing a joint training program for and providing Military Support to Civilian Authorities and Military Assistance for Civil Disturbances within the 48 contiguous states, the District of Columbia, and the geographic AOR;
- Planning for the land defense of CONUS and combined Canada - United States defense of Canada (CANUS);
- Providing forces for worldwide strategic and theater reconnaissance; and
- Planning for and conducting counter-drug operations in support of U.S. Law

Enforcement agencies.

READINESS ASSESSMENT

Although I have already mentioned the caliber of forces in the U.S. Atlantic Command is second to none in our history, let me address specifically the readiness of those forces.

USACOM must prepare its forces to respond to a wide array of challenges both in our own AOR and those of the forward Unified CINCs. In our AOR alone, these challenges encompass political instability, primarily in Cuba, continued narcotics trafficking through the Caribbean, and the reality of a significant maritime capability by the Russian Northern Fleet in the North Atlantic. With the exception of the Russian naval capability, the scenarios of challenge to U.S. national security in the Atlantic AOR fall into the lower end of the conflict spectrum.

USACOM's first year of existence set a standard for joint operations. The success of combined and multi-agency operations in Haiti and migrant operations in Cuba met or exceeded expectations. We are continuing to build on that strong foundation. U.S. forces led a coalition of nations in the enforcement of economic sanctions against the illegitimate Cedras-Francois-Biamby regime, and provided humanitarian assistance to the thousands that fled Haiti to safe haven. In dramatic fashion, U.S. forces were introduced into Haiti in support of United Nations Security Council Resolution 940 on 19 September 1994 as part of Operation Uphold Democracy.

This purpose of this interdiction was to restore the democratically elected government of President Aristide and provide a mechanism to assist in achieving a secure and stable environment to allow democracy to sustain itself in Haiti. Additionally, it was designed to reduce the flow of Haitians leaving in unsafe boats in an attempt to reach the United States. Uphold Democracy was and continues to be an exemplary case study of a multi-service, multi-agency and multi-national operation. Forces of the U.S. Army, Navy, Marine Corps, Air Force, Coast Guard, non-military elements of U.S. government and state agencies, a multi-national military and police force, as well as a host of international non-governmental and private volunteer organizations--all contributed unique capabilities. While under 6000 U.S. military personnel remain in Haiti, the transition to UN Mission in Haiti (UNMIH) will reduce that number to approximately 2400. MG Joseph Kinzer will take command of UNMIH on 31 March and coordinate operations with a total force of 6000 multi-national personnel. Challenged in many ways outside the traditional warfighting skills, our soldiers, sailors, marines and airmen have distinguished themselves in this milestone Operation Other Than War (OOTW) scenario.

As I previously mentioned, the primary challenge in USACOM's AOR, other than the potential Russian naval threat, centers on Cuba. Although no longer a significant military threat, the economic and political decline in Cuba have increased the prospect of illegal mass migration and regime threatening civil unrest. The Cuban migrant challenge in 1994 was the largest since the Mariel boat lift in 1980. Concurrent with the migrant flow from Haiti, the Cuban migration severely stressed facilities at Naval Base Guantanamo Bay. As you are aware, we continue today providing humanitarian assistance to Cubans at Guantanamo Bay in coordination with

designated Non-governmental Organizations (NGOs) and Private Volunteer Organizations (PVOs), and in support of other U.S. government agencies. Fortunately, almost all of the Haitian migrants have been repatriated, making the care of over 25,000 Cubans our primary focus. Although the current situation is steady state and sustainable, the permanent resolution of this situation will occur only with the end of totalitarian rule in Cuba. Again, our armed forces are doing a magnificent job responding to a unique set of circumstances.

Taking a broad look at readiness in the USACOM AOR, I can say with confidence that we are ready today to respond to any of our assigned missions with quality resources: the best equipment in the inventory and, more importantly, the best qualified military personnel ever to serve in the U.S. Armed Forces. Since the inception of USACOM in October of 1993, the command has aggressively tackled joint readiness issues while maintaining the foundation of unit readiness that is key to the more complex joint training and readiness efforts. The result is a comprehensive plan of quality component and joint exercises that meet the requirements of CINCUSACOM in the Atlantic AOR and the requirements of forward CINCs around the globe.

A potential threat to our readiness and training programs is the adverse impact of unprogrammed contingency operations. Because supplemental funding of contingency operations remains uncertain and sometimes untimely, too often USACOM components absorb contingency costs through drawing down Operations and Maintenance (O & M) fund accounts. This results in lost training opportunities and declines in force readiness. Prompt reimbursement for contingency costs is absolutely essential to maintaining the current high levels of force

readiness.

MOBILITY AND SUSTAINABILITY

As the major force provider, USACOM's principle concerns with mobility and sustainability focus on the availability of airlift and sealift to put the material and personnel in theater and sustain them during the two MRC scenario of the Bottom Up Review. To fit this strategy, a combination of pre-positioned equipment in strategically vital locations and highly capable and flexible sealift and airlift must be employed to rapidly respond to contingencies around the world. Defense programming already in place includes plans to enhance prepositioned stocks, add to our Ready Reserve Fleet, and procure the C-17, or a mix of Non-Developmental Airlift Aircraft to replace the aging C-141 fleet.

The importance of strategic mobility has increased with the relocation of our forces from overseas locations to CONUS bases. To execute our national military strategy, we must possess rapid global force projection capabilities.

In looking at CONUS mobility and sustainability and how it affects movement of resources from "fort to port" to meet our requirements and those of supported CINCs, USACOM has identified the need to enhance the automated interfaces between the services and supporting DOD organizations. Existing systems tend to be single-purpose stovepipes of information that do not merge efficiently to provide the breadth and depth of information to make onward

movement of people and material as good as it can be given today's technology.

Another concern is the availability of the 7th Transportation Group and Naval Beach Group 2, two units that conduct Joint Logistics Over the Shore (JLOTS) operations crucial to many scenarios today. They are a finite resource that host mobility enablers called upon for virtually any contingency. They are stretched thin to meet the two MRC scenario.

Within our own AOR, we are generally faced with poor seaport and airfield infrastructure, complicating our ability to close and sustain forces. Initiatives to continue maintaining shallow draft, self-sustaining vessels and the procurement of the C-17 or similar performing aircraft are critical to dealing with this concern.

CONTINGENCY OPERATIONS AND THE BUR

In addressing the issue of contingency operations and meeting the requirements of the Bottom Up Review, USACOM plays a key role. Our challenge is to retain and evolve the readiness of CONUS based forces and maintain our ability to respond to contingencies while reducing force structure to the levels specified in the BUR. We are doing this by leveraging... technology and joint training to maintain forward readiness. Key to the success of this venture is the coordinated teamwork of our customers, the supported CINCs, and USACOM to ensure their requirements are met.

In concert with the Joint Staff, USACOM is constantly reviewing the force structure against the backdrop of these requirements. Each time we commit forces or are on the verge of committing forces, we are careful not to lose sight of those forces not committed to particular contingencies to ensure they are as ready as possible for follow-on support. When tensions increased in Korea last summer followed by the deployment of forces to Southwest Asia in response to Iraqi posturing, we were ready to support each effort with the appropriate forces. In the latter scenario, USACOM was fully engaged in Haiti operations with over 15,000 personnel when we sent forces to protect Kuwait. Our reduced force structure can meet the BUR requirement for two nearly simultaneous Major Regional Contingencies. However, we will no longer have the latitude to perform Operations Other Than War in the event of a major conflict. Forces committed to the OOTW must be able to be withdrawn and reconstituted to participate in an MRC.

There are costs to being ready to respond to the spectrum of contingencies we face in the world today. One cost is often defined in terms of Operations Tempo or "OPTEMPO." This term reflects how many operating days per year a unit is away from its home station/base. If OPTEMPO rates increase beyond standards, funding and training shortfalls are likely to occur which create a domino effect in service and component budgeting cycles. Additionally, OPTEMPO "busts" exact a personnel cost in units, impacting on key quality of life issues necessary to maintaining our force structure at its fighting best.

Within USACOM, the most heavily tasked units/skill specialties this past year have been

MP Companies, transportation personnel and engineer units, surface combatant ships (including LAMPS MK III helo detachments), low density, high demand aviation units such as reconnaissance aircraft and AWACS, and the infantry battalions, helo and F/A-18 squadrons of the Marine Air Ground Task Forces (MAGTFs). As you might expect, our efforts in Haiti and Guantanamo have significantly impacted the OPTEMPO rates of the MPs and the aerial/seaport units, many of whom had been recently deployed to other theaters. In the case of surface combatants, the problem has been contingency tasking of our multi-mission cruisers and destroyers in excess of available resources. This problem was exacerbated by embargo operations in Support Democracy and the Cuban maritime interdiction operations. The aviation units most heavily impacted have been the Atlantic Fleet Reef Point units and Air Combat Command's HC-130s, EC-130s, U-2s, RC-135s, and, to no one's surprise, AWACS. The MAGTFs are high on our list due to their normal training and deployment requirements which follow closely on the heels of II MEF, supporting operations in Guantanamo, Haiti and Somalia.

We have recommended to the Joint Staff, and are actively engaged with our components, to reduce excessive OPTEMPO through a number of initiatives. For MP companies, we are substituting trained surrogate units such as infantry companies trained to conduct security. We also endorse the increased use of unmanned electronic security monitoring devices where appropriate. With the transportation and engineer units, we are contracting out work that is not actually a warfighting mission and working hard to have reserves decrease the operational load on active duty units. We continue to review ship commitments to forward presence and contingency operations in concert with the Joint Staff and our Fleet component, attempting to

balance force structure with commitment levels. Similarly, we have worked hard to reduce tasking levels on our low density, high demand aviation units. By increasing crew ratios and re-examining maintenance and training requirements, we hope to produce efficiencies that result in meeting both training and operational requirements. We have also scrubbed our exercise schedules for ways to reduce OPTEMPO, particularly for the Marines. Through careful assignment of units, elimination of duplicate requirements and substitution of other training methods, we are trying to improve the overall efficiency of our training and deployments. Our simulation efforts hold great promise in reducing OPTEMPO in the near term.

Overall, finding new ways to reduce the number, size and duration of peacetime, routine commitments in our own AOR and those AORs of supported CINCs is key to reducing OPTEMPO. We will continue to work this issue. Our people and the success we have in accomplishing our mission deserve nothing less than our best efforts in this area.

TRAINING/WARGAMES/EXERCISE SUPPORT

I have been asked to describe the results of wargames, exercises and training that support our readiness assessment. I believe from my previous remarks you can see real world evidence of the readiness of USACOM forces. Whether called upon to support relief operations in Rwanda, embargo operations in the EUCOM theater, migrant operations in our own AOR or larger scale responses to escalating tensions in Korea or Southwest Asia, our component forces have responded *mission ready* every time. Continuing force reductions mandate that our

training efforts, particularly our joint training efforts, improve and take advantage of the technological edge inherent in our forces today and in the future.

USACOM'S *primary objective is to sustain and improve the readiness of military forces* based in the continental U.S.. We are planning, training, organizing, exercising, rehearsing and deploying units and individuals capable of operating as joint task forces in a joint environment. Our standards are the joint mission essential tasks (JMET), by which USACOM, the combatant commanders and the Joint Staff identify critical tasks, conditions, and standards required of our forces.

The key to the USACOM training concept is a three tier approach. The Tier One foundation is service training, where soldiers, sailors, airmen, marines and coast guardsmen attain their core competencies. In Tier Two our focus is on achieving service and joint mission essential task standards at the tactical level. It is field training of forces; bringing together units from all four components on the ground, in the air, and at sea to rehearse those unit level, joint tasks that would be required of them in wartime. It is at the third level of training where that value is added to achieving joint operational readiness. At this level, USACOM combines simulation and computer-assisted decision making to train JTF commanders and their staffs more efficiently. The seamless functioning of this three tier formula is key to improving joint readiness.

USACOM's centerpiece for component joint task force operations, planning and staff

readiness is the new Joint Training Analysis and Simulation Center (JTASC). On track to become one of the world's premier centers of next-generation computer modeling and simulation, the JTASC will provide the mechanism by which we can train JTF commanders and their staffs without the expenditure of massive resources normally associated with large field training exercises.

Let me provide a more specific example of one area of training where results have increased readiness of deploying forces already and will continue to improve those forces for future deployments. The current JTF-95 series has been constructed under the Unified Command Plan direction to "identify and prepare, in concert with other CINCs, joint force packages for worldwide deployment." USACOM objectives are to provide enhanced joint training, provide increased capability forward, strengthen joint task force (JTF)/joint task group (JTG) C4I architecture, evaluate alternative approaches to rotational deployments, and exercise future joint capabilities. These objectives are evolutionary in nature and build on lessons learned from earlier force packaging efforts.

Enhanced joint training occurs by ensuring the forces identified for potential employment are trained together under the direction of a Joint Task Force Commander. USACOM links existing training schedules and capitalizes on those events where unit level training can be enhanced to include the joint training needed to support forward CINCs. The process does not add more training to further tax organizations and personnel, but instead enhances what already exists by opening more opportunities to train jointly.

Another capabilities-based force package, USACOM's foreign disaster relief joint force package, is also nearing completion. And USACOM has been working closely with USTRANSCOM to develop a seaport operating joint force package. Although only partially complete, efforts have capitalized on the experience gained in recent joint operations to build a capabilities based force package for opening and operating a seaport under worst case conditions.

With the CINCUSACOM dual-hatted as the Supreme Allied Commander Atlantic, USACOM is also in a unique position to *influence multinational operational readiness*. In this light, the command will *pursue leveraging the existing infrastructure of NATO AND FRIENDLY NATIONS in exercising the Combined Joint Task Force (CJTF) concept* and encourage other nations to participate in planning and exercising regional or coalition response.

CONCLUSION

As I conclude, I'd like to once again address a near-term concern at USACOM: the potential adverse impact of unprogrammed contingency operations on readiness. To keep this concern from becoming a problem, we need this year's emergency supplemental to restore depleted O&M accounts in all USACOM components. Additionally, we need to develop a new funding mechanism and additional fiscal authority to preserve funds for readiness and accelerate the reimbursal of the services for other funds expended on contingency operations.

Our warfighting capabilities and doctrine of the future depend upon a sound recapitalization process. Make no mistake about it, there is no substitute for forces. Meeting future operational demands will still require the capabilities inherent in our performance platforms, fleets, air wings, amphibious and land maneuver forces, and the manpower needed to operate these performance platforms.

America's security is based, to a great extent, on the quality of our armed forces--keeping our personnel and equipment ready. Most importantly, we must provide for our people with adequate compensation, quality of life programs, and some measure of career stability.

The USACOM role has changed with the changing, challenging national security environment. We need to field a credible, affordable military presence worldwide. Whether executing complex migrant operations in our own AOR or providing jointly trained forces to the other Unified Commanders, it is imperative to capitalize on the people and material resources of our components as a total team effort - *a joint effort* - to ensure our warfighting readiness today and into the next millennium.

As I conclude, in the next few days, a very rewarding tour as Director for Operations at USACOM, I look with pride at the collective efforts of the USACOM headquarters and those of our components. In each command, the personnel are absolutely committed to joint readiness and, because of their commitment, I am confident of the readiness of our forces well into the future.

Mr. BATEMAN. This question is primarily going to be directed to you, Admiral Fargo, but the observations of the others would be equally important.

We are told constantly about the turbulence in your budget as a result of having to provide funding from your O&M accounts for unforeseen contingencies. We understand that problem. We know it is a problem. Presently there is darn little we can do about it retrospectively. We hope to do better prospectively. But in the here and now, we understand the problem but I am not sure that we understand the system by which this problem is dealt with in terms of the Pentagon and throughout the military.

If the Atlantic Command is tasked to do the refugee problem at Guantanamo, to do that program, this deployment, the other deployment, obviously you say aye, aye and go off and do it.

Who is making the decisions, at least the early-on decisions, as to how you fund it when you are given this unforeseen contingency? Do you take it out of an Atlantic Command budget that you had anticipated using and you have to shuffle your budget around? Or when you are told to go off and do these contingencies, is someone at a higher command level in the Pentagon, the Joint Chiefs, saying go do it and we will provide you funds from this source, that source, the other source looking at the entire DOD budget? How does the system work?

Admiral FARGO. Yes, sir, I understand the question very clearly, because it is something we deal with every day. As a unified commander, we really do not have a significant budget. Our budget is about \$30 million in the Atlantic Command.

Mr. BATEMAN. Just the headquarters budget?

Admiral FARGO. Yes, sir, just the headquarters budget and some transportation dollars to help train. So the bill payers are really our components. The forces command, as I mentioned, and the Atlantic fleet are the two principal bill payers with respect to Haiti and Guantanamo. In fact, they use the O&M dollars that have been provided them in their original budget submission to pay those bills.

Mr. BATEMAN. But it is the Atlantic fleet's budget that pays?

Admiral FARGO. Yes, sir.

Mr. BATEMAN. So Admiral Flanigan takes this out of hide?

Admiral FARGO. Yes, sir, he takes it out of hide.

Mr. BATEMAN. Throughout or just early on until somebody shuffles some money around to reduce the budgetary impact on his command?

Admiral FARGO. Yes, sir, and, obviously, he is betting on the COM, to a certain extent, that there will be a supplemental, and it will be timely, and he will be reimbursed to some percentage on the dollar so that he can take that money and put it back into the O&M accounts. If, in fact, he is not reimbursed by some mechanism, then he has to take it out of things like flying hours, steaming days, and maintenance of real property.

We have looked at this very carefully in the case of FORSCOM. If there is not additional funding FORSCOM will, basically, have to shut down their training in June. The Atlantic fleet's training will be curtailed in July and the air combat command will have

similar problems that start in approximately August. So it is a very serious problem.

Mr. BATEMAN. Thank you very much, Admiral.

I would also like to have Admiral Lair from the European Command tell me how the various deployments, the unexpected contingencies, have been handled in that command.

Admiral LAIR. The money for the U.S. European Command comes out of our components. We are given a JCS order to execute in Provide Comfort or Provide Promise, but, more important, last year was the Rwanda operation that started on July 20 and ended on September 30. A large bill in airlift, in deploying the Army forces. So, at that time, General Maddox, the U.S. Army Europe Commander, had to take the money out of O&M dollars, which meant track miles—Gravier, Hohenfels—and also flying hours. So it is component money that is taken out, much like for Admiral Fargo.

Mr. BATEMAN. So, in each instance, it seems to me the money is coming essentially from the operational people, the warfighting people.

Admiral LAIR. Yes, sir.

Mr. BATEMAN. Instead, someone at the Pentagon should be looking around to find money that would not impact as severely on your readiness, your maintenance, your ability to sustain readiness. Each pot is a smaller pot. Everything you divert from it is more difficult than it might be were somebody looking at it from a higher level of command in terms of an across-the-board evaluation of how to move money in the entire budget.

Admiral LAIR. Sir, and the other part of that, especially for the safety units, a unit like the Strike Eagles going from Lakenheath to Red Flag, again, if I miss that window, I cannot pick that window up because of a year-long training opportunity.

Mr. BATEMAN. One of the problems I think all of us need to be very sensitive to is that we could rush supplementals through and get you back whole budgetarily, but we cannot give you back the time on training exercises that you miss.

That is the 10-minute bell for a vote, which I understand is apparently on the previous question and in connection with the next rule for the bill.

Mr. SISISKY. Then we have three votes.

Mr. BATEMAN. OK. Then a possible series of three votes. Oh, heavens. We will be back as soon as we can get back, and I appreciate so much your all being here and sorry that we have to interrupt the proceedings at this point. We will return as quickly as this series of votes permits.

[Brief recess.]

Mr. BATEMAN. My apologies to the panel. I will not take the time to explain the glitch in the schedule, but apologize for it.

I have other questions but the time is not sufficient for me to pose them all. I may submit some and ask you to respond for the record.

Mr. Sisisky.

Mr. SISISKY. Thank you, Mr. Chairman. I probably will do the same thing. I think I saw all of you and thank you. You have come long distances to appear before this panel, and I apologize with my

chairman on the things that happen. Unfortunately, we never have control over what happens on the floor, as you do not have any control over what happens in the world.

There was something that came up when Admiral Boorda testified before the committee. He stated that he has had to ask the CINC's for relief from some tasking due to the shortfalls in the Navy. What tasking, do you know, was he talking about; and have other components or other services come to you asking for similar relief?

General HOPGOOD. Sir, I might address that from the Pacific perspective. The requirement to have carriers in Northeast Asia as well as to have the carrier presence in Southwest Asia is a continuing requirement, not only the carriers but also the amphibious ready groups. The team that just completed the evaluation of Somalia, the amphibious ready group down there, was sourced out of the Pacific. Specifically, the *Bella Wood* was down there. We sent it away from a training mission that could have been involved in Northeast Asia to go down there. So that is the type of thing I believe Admiral Boorda might be referring to.

Mr. SISISKY. Does anybody else have any—probably, then, that is what had happened.

We talked about contingency operations and I don't know if it was this group or whether it was Admiral Owens. I think the chairman asked this group. Do you cancel operations that you were planning? What do you do to really get the money there and be able to keep your people ready?

Admiral FARGO. I can answer that.

Mr. SISISKY. Joint exercise is really what I was talking about.

Admiral FARGO. There are a number of things you can do. Obviously, in the maintenance area, we have availabilities, overhauls and similar maintenance activities that we defer into the next fiscal year. That is one way to come up with money to pay for contingency operations. Obviously, all the training that we do has a price tag associated with it, and you can defer that training, but as the chairman mentioned you do not get that back. That is lost training.

Then, of course, the third category is the maintenance of real property being able to upkeep the infrastructure on these bases, and those are the principal ways. Shutting down flying hours and steaming days for the forces that are in the RAOR, the training locally, is another source of potential moneys.

Mr. SISISKY. Of course, when you start loading up troops on aircraft, I think Korea was an example, we were ready to go. That is an exercise in itself; is it not? By placing our troops so fast in Kuwait, it may not be the same type of exercise but it is one that would enable you to lift your people both by sea and air.

And talking about sea and air, no matter what you do, you need the enablers. You need the airlift. And how are we set on that? Are we in fairly good shape now? With the C-17 coming on, and I know the aging fleet in 141, do you think we have the enablers now?

General HURD. Congressman, do we have them now? No, we do not. Do we have a program that would get us there? Yes, but it will take the continual support of Congress to fund those enablers, particularly the C-17 or the nondevelopmental aircraft, after that study comes out and says which one.

We continue to study that all the time, as to what is the requirement. In all cases it comes out rather close. In any case, it comes out more than what we have today. So we have to continue that program. Because as we continue to bring our forces back into this state versus forward base to project, we have to have lift capability, and that is both air and sea. So both programs have a funding line and we need to continue to support that line.

Mr. SISISKY. One of the problems we have, and I am not talking about the people who are talking isolationism, is that the American public always asks through their Congressmen and Senators, why should we have troops in Europe; why should we have troops in Korea? I always answer, particularly as it relates to Europe, because I am more involved in the North Atlantic Assembly and things, and that the troops that are in Europe are not there for the European convenience, they are there for our convenience. Somehow the message never gets to the public. And it's the same thing with Korea.

The biggest problem we have, and we will hear it again in burdensharing, why do we have 37,000 American troops in Korea to protect South Korea? Why are they not paying us more? Again, that is our job to try to convince the American public that they are necessary, but I want to hear it from you, too.

General FRANKS. Well, Mr. Sisisky, you know because General Luck was here with the full committee last week, but I would offer a couple of comments and maybe amplify some information that was given.

Three hundred seventy to \$400 billion a year in trade with that particular part of the world, and the need to have stability in that particular part of the world, that being on the peninsula in Korea. When you think about a total cost of the force over there, it may be \$2.5 billion or so, and when you have an ROK indirect contribution to that of perhaps a billion three or maybe a billion and a half, then you have them with cost sharing, which certainly, as you know, has gone up from \$150 million a year in 1991 to \$300 million in the most recent year. So, what you wind up with is a pretty small investment on that \$370 to \$400 billion a year of trade activity that we have with that part of the world.

I believe CINCPAC made a comment here not long ago that we can station troops in the Republic of Korea, in the Nation's interests, on a basis of about two to one for what it would cost us if we stationed them somewhere else. And, of course, as the operator for the theater, I am not trying to justify the national decisions that have been taken, only to say that in my opinion we get our money's worth out of the 37,000 Americans that we have on the peninsula.

Mr. SISISKY. In my younger days, many years ago, for 4 years in a row in February, I traveled there because I thought it an obligation to visit the 2d Infantry Division that was sitting up there on the 38th parallel and to see young Americans, without families or anything else, spending their time up there, but nobody knows about it. When I say nobody, I am talking about the American public. I used to have to thank them for the American public.

General FRANKS. I am pleased to offer some thoughts on that, because I am fortunate to have an opportunity to take command of that great division 2 weeks from now. So I have more than just the

normal operator's interest in that division. It's a tremendous division.

You can go and see the OPTEMPO that exists in Korea, which is 12 months for the normal trooper. It is 12 months all day and all night in terms of his contribution to our Army, to his division, to our country. As I said in my opening remarks, there is an awful lot to be proud of and we should all take great pride in the fact that 37,000 Americans—perhaps 27,000-plus U.S. Army troops, another 9,000 or so Air Force personnel, and then Marine and Navy personnel as well—are there, a long way from home, doing very high quality work.

I commented that readiness is in good shape. Our near-term readiness is OK in Korea. We have to watch our mid-term readiness very carefully because of the infrastructure problems that we have.

Mr. Chairman, you have been kind enough to assist with some MILCON help there. I believe in the most recent year, \$34.6 million to that problem, with perhaps \$30 million a year in the future.

I would say, the MILCON perspective, that trend line moves in the direction that we want. We also have infrastructure issues that we watch very carefully, and the key for us is balance. It is balance to be sure we are continuing the training tempo, to remain as ready in the near term as we are, but that we are also paying attention to the mid-range, and that we are recapitalizing, as the Admiral said earlier, and paying very close attention to the modernization accounts for the future.

Mr. BATEMAN. Let me offer some comments, and perhaps you can carry them back to the forces that you direct.

I think the American people are inordinately proud of the way the services have discharged their many responsibilities, their unexpected responsibilities. If you are like myself, and you had grave questions as to whether or not the Haitian mission was one that the United States should have undertaken, you nonetheless have to come away with inordinate pride in the manner in which it was undertaken. We do have a very, very high regard for the caliber of the services.

The thing that is particularly concerning to this Member is your testimony as to the degree of readiness we have today, the degree of high morale that we enjoy today among the troops, especially those who are tasked to do the most difficult kinds of things. It does not surprise me that they are doing it with high morale and that they are inordinately proud of what they are doing, but I do not know how long we can continue to task them, especially our units that most frequently called upon for deployment and unexpected deployments.

My colleague mentioned the training value of doing these exercises where you are jointly going off to conduct an operation. Actually, I would agree with him that that is one aspect of training that you have gotten a great deal of, perhaps more than can be sustained over time, especially with the units first called upon for so many of the deployments, where their morale is not going to stay high if we are going to overburden them over a period of time.

General Franks, because it helps us in trying to meet some of the debate that takes place here in the House, I would like you to fur-

nish us the data showing the trend line of the South Korean effort or contribution toward their defense, both in the context of the size and shape of their military budget and the number of forces that they bring to the security of the Korean Peninsula. Probably from a 1990-91 time frame through the present time.

I think that would be very helpful, and also the data as to how they have increased the sharing of costs of deploying our troops there.

The Korean economy, and it is something they should have great pride in, has been a very, very vigorous, robust one. It has grown enormously relative to worldwide trends, and I do not know that it is realistic to expect that their contributions go up commensurate with the development of their gross national product, but it would be interesting to see that trend line, also.

My colleagues and I are now in the situation where we are 10 minutes beyond a luncheon that I am supposed to be hosting. So I am going to thank you once again for being here. We have not had time for all the questions I would have liked to ask today because of the interruption of the votes and the other things about the aberrations of this peculiar schedule, but I can assure you that your testimony has been very valuable and is appreciated. And, please take the word back to the young men and women who you command, how very proud we are of them. Thank you very much for being here with us today.

General HOPGOOD. Thank you.

General FRANKS. Thank you.

General HURD. Thank you.

Admiral LAIR. Thank you.

Admiral FARGO. Thank you.

[The following questions were submitted for the record:]

INTEGRATED PRIORITY LIST

Question: What are some of the items identified by your command on the "integrated priority list": and, of these, what do view as the most critical?

General Hopgood: Our top five priorities reflect our emphasis on warfighting and people. The top five priorities on the Fiscal Year 1997 - 2001 U.S. Pacific Command Integrated Priority List are:

DELETED

LIFT

Question: Last year, the committee provided \$50 million for a mobility enhancement package and has received a list of critical areas where this money is needed. In our hearings with the services and with the CINCs, one message comes through loud and clear: Lift is the most pressing requirement. What are your views on specific items that are needed now to ensure that mobility is provided for your AOR?

General Hopgood: Power is only effective when it can be projected. Without adequate, modern, and reliable strategic lift, both air and sea, our armed forces can not get to where they are required. In order to project our forces, we need the C-17 and the Large, Medium-Speed Roll-On Roll-Off (LMSR) vessel now.

Categorizing Readiness and Priorities

Question: The department of Defense places readiness into three categories:
 Near term: largely robust operations and maintenance spending.
 Medium term: more intangible such as quality of life and people programs
 Long term: modernization of equipment and maintaining the technological advantage enjoyed by United States forces.
 What are your personal views on how this balance is being maintained and what are your concerns?

General Hopgood: Near term readiness is of particular concern. Without prompt approval of supplemental funding, many commanders will be forced to take tough actions on balancing training and maintenance dollars with payment for unplanned operations.

For medium and long term, the fiscal year 1996 budget adequately balances funds for readiness and equipment, with some shortfalls in quality of life programs. The five year defense program will make up current shortfalls in the outyears, but we can live with reduced recapitalization funding for the near term only.

Without adequate recapitalization, I am concerned we will upset the balance between force structure, modernization, sustainability, and readiness.

Critical Force Enhancements

Question: There is an emerging consensus that critical force enhancements are essential in the following categories:
 strategic mobility including airlift, sealift and prepositioning;
 advanced precision-guided munitions to increase the lethality and survivability of United States forces;
 enhancements to surveillance, and command and control, and communications capabilities;
 improved readiness among selected reserve component forces, particularly the fifteen brigades of the Army National Guard.
 Please provide your personal views on these priorities and what other types of enhancements are necessary for you to perform your taskings?

General Hopgood: Modernization of joint and multiservice systems which enhance our warfighting capability as well as recapitalization are critical to the readiness and sustainability of United States forces. If I were to prioritize these specific critical force enhancers, it would be: 1) strategic mobility, 2) enhanced surveillance, and command and control, and 3) advanced precision guided munitions.

Critical Capabilities

Question: Please provide your views on the adequacy of the capability in the following areas:

chemical and biological weapons defense;
mine countermeasures;
command, control, and communications;
precision munitions.

General Hopgood: Maintaining an adequate stock of serviceable chemical and biological protection and detection equipment is vital to the warfighting ability of United States forces. Failure to provide adequate detection and protection seriously degrades our ability to survive and win when confronted by these weapons.

Mine countermeasure capability is inadequate due to the lack of mine countermeasure control ships and insufficient force structure to keep surface mine countermeasure ships forward deployed on a continuous basis. The Navy may forward base mine countermeasure ships in the Western Pacific area at some later date; but, this will not happen for at least two years.

The current Worldwide Military Command and Control System provides adequate capability. The follow-on Global Command and Control System (GCCS) represents a significant improvement. To reach its full potential, it's necessary for GCCS to include additional features such as multi-level security, multi-lingual capability, and an expanded satellite system.

Improved precision munitions are critical to our ability to carry out assigned tasks in this era of reduced force structure.

End Game on Taskings

Question: We are involved in some rather extensive peacekeeping and humanitarian efforts. For example, the Cuban problem at Guantanamo is going far longer than expected. How do you view the need for establishing an end-game for these conflicts and are there ways to accelerate the reduced involvement of United States forces?

General Hopgood: The two keys to accelerating reduced involvement of United States forces are: establishment of a clearly defined end state by the national command authorities; and, making transition planning a distinct part of the campaign plan. Transition may be to local government agencies, United Nations forces, contractors, or nongovernment organizations/private volunteer organizations. The end state defines the goal; and, the transition plan provides ways to meet goals in the shortest time.

WAR GAMES AND JOINT EXERCISES

Question: We have heard that significant progress has been made in linking above-corps-level training simulations of individual services through joint exercises. Please describe this process and also, describe your efforts and results in war games and joint exercises.

General Hopgood: We focus our training on our three primary contingency Joint Task Force headquarters, I Corps, Seventh Fleet, and III MEF. These service headquarters participate in simulation driven exercises at the Joint Task Force level in our TEMPO BRAVE series of exercises. These exercises include individual service training events which compliment the overall exercise scenario for the Joint Task Force and USCINCPAC headquarters. We also enhanced the training value of these simulation driven exercises by preceding them with a seminar wargame designed to examine some of the non-traditional warfighting issues which play a key role in the following exercise.

JOINT PLANS AND EXECUTION

Question: The Joint Operation Planning and Execution System or JOPES is used to build operations plans and to manage deployment. It also is used to build the Time Phased Force and Deployment Data Base (TPFDD). To what extent are these systems used? Are they reliable? And, to what extent are deviations required in actual deployments? What improvements would you recommend?

General Hopgood: JOPES is used on a daily basis in the planning and execution of all Joint Exercises, Deliberate Plans and Crisis Action Plans. The system is reliable; however, it is antiquated and not user friendly. JOPES is too slow to handle the execution requirements necessary in the early phases of a crisis. Telephones and Fax machines are used until JOPES can catch up.

Improvements to the current JOPES system are underway. The Global Command and Control System (GCCS), presently under development, is a start to improve the planning and execution process. However, it is important to ensure JOPES functionality in GCCS be brought up to date with today's technology.

COMPONENT TASKINGS

Question: When Admiral Boorda testified before the committee, he stated that he has had to ask the CINCs for relief from some taskings due to shortfalls in the Navy. What was he talking about? Have other components come to you asking for similar relief?

General Hopgood: I believe Admiral Boorda was talking about surface mine countermeasure ships. There are valid requirements for these ships in both the United States Pacific Command and United States Central Command areas, but not enough force structure to provide sufficient ships to both areas. In the meantime, the two currently deployable ships must be shared by Commander in Chief, United States Pacific Command and Commander in Chief, United States Central Command. As more surface mine countermeasure ships come on line, the Navy plans to forward base some ships in the Western Pacific and in the United States Central Command area.

There is also a shortage of aircraft carrier battle groups. A major regional contingency requires a carrier group to be on station immediately. Competing requirements for continuous carrier presence in the United States Central Command and United States Pacific Command areas cannot be met with our current number of carriers. The Navy's carrier schedule has gaps in the desired 1.0 carrier presence in both the USPACOM and UNITED STATES CENTRAL COMMAND areas.

Defense Science Board Task Force on Readiness

Question: The defense science board task force on readiness made specific recommendations regarding the need for better measurement of joint readiness. What measures have been taken to improve joint readiness assessments, and how have these measures improved the accuracy of readiness assessments? Specifically, have any of the new measures lessened the degree to which the Joint Chiefs of Staff must rely on commanders' subjective assessments, or improved the ability to predict future readiness status?

General Hopgood: The Chairman of Joint Chiefs of Staff recently commenced a new reporting system to quantify joint readiness. This system assesses both combatant commander and service readiness. It provides the Chairman a better picture of overall readiness by focusing on joint and unit-level readiness.

There are no easy answers for measuring readiness. Regardless of the readiness reporting system, every assessment relies upon the commander's personal judgement of today's status and tomorrow's readiness.

Reporting Readiness

Question: The Joint Chiefs of Staff recently implemented the Joint Readiness System for the Unified Commanders to use in reporting readiness. Please describe:

(a) how the new system provides a more objective readiness assessment, and

(b) the specific criteria that has been provided to the Unified Commanders for reporting in the eight areas of the Joint Monthly Readiness Review?

General Hopgood: The new system provides a better assessment by measuring critical joint readiness areas which complement service assessments of unit-level readiness.

The Joint Staff provided the unified commanders the flexibility to develop in-theater unique metrics. This flexibility is necessary to adequately measure the capability of each Commander in Chief to accomplish his varied missions.

JOINT EXERCISE PROGRAM

Question: According to JCS officials, the Chairman's Joint Exercise Program includes exercises that are of marginal training value while other so-called joint exercises involve only a single Service. What actions are being taken to improve the joint training program?

General Hopgood: Improvements to the joint training program are occurring by ensuring joint exercises support the commander's assigned missions within the Joint Strategic Capability Plan, the Unified Command Plan, United States Alliance or Treaty or regional initiatives. Each joint exercise has a Joint Mission Essential Task List which is selected from the tasks found in the Universal Joint Task List. The Joint Mission Essential Task List is a "train-to-task" program within the joint training system.

JOINT OPERATIONS

Question: Recently, JCS made significant changes to its strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command. Other regional CINCs have voiced concerns about the command's ability to train forces for their use. What actions are being taken to address these concerns?

General Hopgood: The Joint Staff directed the development of a universal joint task list which contains tasks commanders at any level can expect to receive in performing their mission. United States Atlantic Command is leading an effort to develop a joint mission essential task list for the geographic commanders and their joint task forces. This joint mission essential task list details the conditions under which the tasks are to be performed, the standards by which they are assessed, measures to be used in that assessment, and the steps that should be used in the accomplishment of the task.

This breakdown of warfighting tasks is intended to provide U.S. Atlantic Command with the training guidance necessary to successfully train forces for the warfighting unified commanders.

READINESS

Question: Are you adequately resourced to accomplish the needed training to meet the range of mission requirements?

General Hopgood: We depend upon the services to provide trained and ready forces to meet our requirements. I share the concern expressed by all the service chiefs that readiness is suffering because of current operational requirements both in terms of money to fund needed training and operations tempo concerns.

We concentrate on accomplishing joint training at the Joint Task Force Level which the services cannot complete on their own. This training is also impacted by the same operations tempo problems faced by the services. U.S. Pacific Command is adequately funded at this level but we depend upon the services to pay the cost of their units' participation in our joint exercises. Each of our services has had to prioritize service specific training against joint training because they are not resourced at 100%. The result is that they are not able to participate at the requested level in all of our exercises.

Question: What are the current restrictions on training range access for both ground and air training? What training is not being accomplished and what is the readiness impact? How are training deficiencies being addressed?

General Hoggood: Training ranges both ground and air are constantly under pressure from modernization and population growth. These problems are compounded by the increased costs to the U.S. government for their use in foreign countries. In many cases these increases are the results of modernization efforts by the host governments to bring the range up to world class standards. For example, Pacific Air Forces reports scheduling problems with the Electronic Warfare range and with the Class A bombing range in Korea. There is also the possibility of the range being closed due to commercial construction. When such a range is closed we have to adjust training schedules if possible to move required training to another location, possibly at a greater cost if it must be done in another country or back in the United States.

Another example is Japan's Airline Transport Association requesting more direct routing from the Japanese Government. If approved, this would result in a major reduction of airspace for our aircraft at Misawa to train in. We work closely with the host governments on all the issues to insure that our forward stationed forces receive their required training.

Impact of Contingency Operations

Question: Do you have any concerns about the Services' ability to access sufficient numbers of reserve component volunteers to meet the requirements of contingency operations?

General Hopgood: No.

Question: What has been the impact of contingency operations on your readiness for major regional conflicts?

General Hopgood: There has been little impact. The Services have shifted operations and maintenance funds to pay for contingency operations. This has resulted in temporary dips in the readiness of reinforcing forces.

Contingency operations provide limited training in certain skills while simultaneously resulting in lost opportunities to train in essential warfighting skills.

Question: What have you identified as the units or capabilities most stressed in meeting operational requirements? What has been the impact on readiness of these units or capabilities to respond to regional conflicts? Are you satisfied that sufficient corrective action is being taken?

General Hopgood: Air Force airborne warning and control crews, Navy air squadrons and ships stationed in Japan, Marine logistics and embarkation specialists, and Army special forces medical specialists are the most stressed capabilities in the Pacific theater.

There is minimal impact on unit readiness. However, the units involved are unable to train fully to their warfare missions and usually receive compressed training cycles and increased funding to regain minimum qualifications.

Yes. We are confident the Services are developing a means to monitor the situation; and are addressing operational and personnel tempo concerns.

Question: Do you expect the high pace of operations to continue? If so, what do you see that needs to be done to ensure force readiness to meet your short-term and long-term requirements?

General Hopgood: Yes. Pacific Fleet's scheduled level of operations is heavier than normal for the third quarter.

Without prompt approval of the proposed supplemental to offset shifting of funds to pay for operations other than war, I expect readiness levels to rapidly decline in the fourth quarter. In the long-term, maintaining the integrity of the future year defense plan is crucial to recapitalize force readiness in the outyears.

TRAINING

Question: Recently, JCS made significant changes to the strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command.

- a. What has been the experience with this concept?
- b. Does it impede your ability to conduct their training?

General Hopgood: We work closely with the U.S. Atlantic Command to ensure that our training priorities are reflected in the training programs they provide to U.S. Pacific Command gained forces. We also work closely with the U.S. Atlantic Command to insure the training we provide to U.S. Pacific Command assigned forces is compatible with our mission and the training military forces receive worldwide. This is an evolving process which is working well and has not impeded our training in the Pacific.

Question: What are your views on adaptive joint force packaging? Do these tailored forces provide you with sufficient capabilities to conduct anticipated military operations?

General Hopgood: United States Pacific Command's proven two tiered concept with designated, pre-trained joint task force commanders has proven ideal for the United States Pacific Command area of responsibility.

It is difficult to determine what missions or tasks the joint task force commander will be required to accomplish. Due to the dynamic geopolitical situation in the United States Pacific Command area, we have found it best to have a previously designated and trained joint task force commander and staff that is prepared to accept and command the joint force package tailored specifically to accomplish the mission.

Within our area of operations, we routinely practice this concept in both contingencies and joint exercises.

Army National Guard Enhanced Readiness Brigades

Question: Although fifteen enhanced brigades in the Army National Guard are a critical element of the Clinton military strategy, the Army continues to experience major problems in adjusting its training strategy to meet this need.

Are these brigades fully integrated into your contingency scenario? Are you comfortable that the readiness levels of these brigades are adequate to be fully integrated into your contingency plans? If not, what improvements are needed?

General Hopgood: Yes, they are fully integrated into the warplans. Their timing is keyed for them to arrive fully trained.

I am confident they will arrive ready to be fully integrated. Tactical training at this level is a Service responsibility. Every warfighting commander relies on the United States Army under the purview of the United States Atlantic Command to ensure the Army National Guard enhanced brigades' readiness is adequate.

South Korean Capabilities

Question: We have a Government Accounting Office report that is highly critical of the South Korean warfighting capabilities. The South Koreans have primary responsibility for the conduct of the land war, what are your concerns in this area?

General Hopgood: Republic of Korea Army (ROKA) force modernization and improvement during the past ten years has been significant; but, insufficient to preclude widening of critical force disparities with North Korea. Mechanization of infantry forces, fielding of modern armor, expansion of attack aviation, modernization of artillery units, and improvements and hardening of defensive positions have been the areas of primary focus.

ADEQUACY OF AIRFIELDS

Question: We have heard reports that the number of base closures overseas has seriously impacted on enroute base infrastructure needed to airlift our equipment and people to a regional conflict. Particularly, for the number of closures in Europe has limited our capabilities for deploying to Southwest Asia and there may be airfield availability problems in South Korea. Would you please comment on this and what are the remedies?

General Hopgood: Our enroute airbase infrastructure from the Continental United States through Alaska, Hawaii, Guam, and Japan is adequate to support the deployment of combat forces and sustainment to South Korea.

U.S. READINESS FOR KOREA MRC

Question: The 37,000 United States forces in South Korea, including the 12,700 U.S. Army personnel of the forward deployed 2nd Infantry Division rely heavily on reinforcements in order to combat a North Korean attack on the South. Under the BUR's two MRC scenario, there are questions as to whether the United States would be able to lift enough personnel and materiel in time to support the U.S. forces on the ground.

Are you comfortable that the United States can deliver enough personnel manpower to combat a full-scale North Korea invasion?

General Hopgood: We are confident US TRANSCOM will fully utilize both military and civil air and surface assets in order to deploy the necessary personnel and material to halt a full-scale invasion.

Impact of Contingency Operations

Question: What are the readiness shortcomings of United States forces and how are these being addressed in the 1996 budget?

General Hopgood: My readiness concerns are personnel shortages, adequacy for quality-of-life programs, lost training opportunities, and equipment shortages.

The 1996 fiscal year budget adequately funds for readiness and equipment with some shortfalls. It underfunds quality-of-life programs, Fleet Air Support, ship maintenance, Army participation in joint exercises, and Army real property maintenance.

OTHER NATION COMMITMENTS

Question: Besides the United States, what other nations in the region have committed to the defense of South Korea?

General Hopgood: Besides the United States, 15 countries sent combat forces to Korea during the Korean War. Eight of these countries (Australia, Canada, New Zealand, the United Kingdom, France, the Philippines, Thailand and Columbia) are still active members of the United Nations Command, which is designed to accept and coordinate the efforts of active members to repel a North Korean invasion. We expect most of the active members to provide some form of assistance to South Korea if it is attacked by North Korea again.

CRITICAL MUNITIONS AND WAR RESERVES

Question: How would you describe the state of war reserves and critical munitions stockpiles for U.S. forces? Are you comfortable that follow-on supplies of this materiel would arrive in time?

General Hopgood: PACOM has sufficient stocks of war reserve and critical munitions on-hand or readily available in theater and CONUS stockpiles.

Continued emphasis on modern munitions acquisition must be sustained to acquire the optimum mix of preferred and secondary munitions. The Army is working hard to resolve shortfalls of major end items/weapons systems and high tech/high cost repair parts like rotor blades, engines and circuit cards in the Army War Reserve-4 (AWR-4) stockpile. Additionally, all Services are making progress toward improving our critical munitions stockpile.

USTRANSCOM has validated the feasibility of our time-phased transportation requirements for our Major Regional Contingency (MRC) Operation Plan. We feel comfortable that follow-on supplies will arrive on time.

LESSONS LEARNED

Question: Last year the United States deployed forces to South Korea as tensions rose over the nuclear situation in North Korea. This included a deployment of Patriot missiles, deployment of a carrier battlegroup, forward deployment of aircraft and other assets.

What lessons were learned from this deployment that could be used in future deployments?

General Hopgood: We validated much of what we already know about deploying forces. With respect to the Patriot missiles, arrangements for the delivery, transportation and placement for the missile batteries and supporting personnel were made ahead of time and the deployment went smoothly.

The deployments of the carrier battlegroup and aircraft are routine operations that the Navy and Air Force conduct on a regular basis.

With respect to the other assets, mainly personnel, we learned that it was helpful to have the units completely identified ahead of time to allow them to be ready for short notice deployment.

READINESS

Question: How has the recent high level of contingency operations affected your ability to conduct training and joint exercises? How many joint exercises have been canceled?

General Hopgood: Some impact of the Haiti and Somalia contingency operations will begin during the third quarter and the full impact will be realized in the fourth quarter of fiscal year 1995. The execution of contingency operations is providing some training benefits but there are negative impacts also. Joint exercises are tailored to fulfill a variety of joint mission essential task tasks and meet training objectives in order to maintain our standards of readiness. Contingency operations do not provide the same opportunities.

No joint exercises have been canceled as the result of contingency operations; but, component participation in joint exercises has been reduced.

Impact of Contingency Operations

Question: Has the Army been able to supply the needed support personnel to meet the requirements for contingency operations? To what extent have personnel been transferred between units to meet these requirements? How has this affected the readiness of losing units and their training?

General Hopgood: The United States Army Pacific has been able to resource contingency personnel requirements with little impact on readiness.

In most cases personnel transfers have not been required to meet mission requirements. Occasionally, as in the recent peacekeeping operation deployment to Haiti (UPHOLD DEMOCRACY), some specialists from other units have been attached to the task force. These augmentees are attached to the Army headquarters within the multinational force for 179 days maximum, then returned to their parent units. The impact on parent unit training and readiness is minimal.

Question: Do you have any concerns about the services ability to access sufficient numbers of reserve component volunteers to meet the requirements of contingency operations?

General Hopgood: To date, Reserves have provided the Services with volunteers to meet the requirements of contingency operations. However, I am concerned that issues regarding the increased and/or extended use of Reserve volunteers have not been fully examined. My concerns are as follows:

1. Frequent and extended absences during peacetime could place an unreasonable burden on the individual Reservist and the average civilian employer. This situation could lead to Reserve Component (RC) recruitment and retention problems.

2. Volunteers would accrue significant entitlements on extended active duty. The cost effectiveness of using volunteer Reservists vice active duty personnel should be evaluated in detail.

3. The Services would need to budget additional funds and expand active duty full-time support to effectively manage significant volunteer Reserve assets.

4. It would be difficult to maintain Reserve unit integrity in a volunteer-only scenario.

5. Expanded use of Reserve volunteers during peacetime could lead to additional active duty end strength cuts resulting in over-reliance on RC capabilities for mission accomplishment.

Question: What has been the impact of humanitarian and peacekeeping contingency operations on your readiness for major regional contingencies?

General Hopgood: Peacekeeping operations provide limited training in certain skills while simultaneously resulting in lost opportunities to train in essential warfighting skills. The heaviest impact is with the constant use of unique active component support units such as military police, psychological operations, and civil affairs.

Question: What have you identified as the units or capabilities most stressed in meeting operational requirements? What has been the impact on readiness of these units or capabilities to respond to regional conflicts? Are you satisfied that sufficient corrective action is being taken to relieve this situation?

General Hopgood: Air Force airborne warning and control crews; Navy air squadrons and ships stationed in Japan; Marine logistics and embarkation specialists; and, Army special forces medical specialists are the most stressed capabilities in the Pacific theater.

There has been minimal impact on readiness. Pacific Command forces are ready to respond to regional conflicts. Our component commanders are deploying combat ready units.

Yes. We are confident the Services are developing a means to monitor the situation; and, are addressing operational and personnel tempo concerns.

Question: Do you expect the high pace of operations to continue? If so, what do you see that needs to be done to ensure force readiness to meet your short-term and long-term requirements?

General Hopgood: Yes.

Without prompt approval of the proposed supplemental to offset shifting of funds to pay for operations other than war, I expect readiness levels to rapidly decline in the fourth quarter. In the long-term, maintaining the integrity of the future year defense plan is crucial to recapitalize forces in the outyears.

Question: Contingency operations appear to be changing in nature from short-term, in and out operations, to one of semi-permanent status. How does this changing nature of operations other than war affect both short-term and long-term concerns with respect to readiness?

General Hopgood: Unplanned contingency operations will continue to require the Services to shift funds resulting in short term readiness perturbations. Passage of a readiness preservation authority to provide timely supplemental funds for unscheduled contingencies will help prevent similar shortfalls in the future and avoid disrupting programs which affect longer term readiness.

Readiness

Question: What has been your observation of the readiness of the forces that are being provide to the United States Pacific Command?

General Hopgood: Service Components are deploying combat ready forces. Component Commanders in the Pacific report they are ready to meet all current requirements.

Question: What readiness requirements are not being met due to a lack of, or constraints on, resources?

General Hopgood: None.

JOINT TRAINING

Question: Recently, JCS made significant changes to the strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command.

What has been the experience with this concept?

General Hopgood: We work closely with the U.S. Atlantic Command to insure that our training priorities are reflected in the training programs they provide to U.S. Pacific Command gained forces. We also work closely with the U.S. Atlantic Command to insure the training we provide to U.S. Pacific Command assigned forces is compatible with our mission and the training military forces receive worldwide. This is an evolving process which is working well.

Question: Recently, JCS made significant changes to the strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command.

Does it impede your ability to conduct their training?

General Hopgood: We work closely with the U.S. Atlantic Command to insure that our training priorities are reflected in the training programs they provide to U.S. Pacific Command assigned forces. We also work closely with the U.S. Atlantic Command to insure the training we provide to U.S. Pacific Command assigned forces is compatible with our mission and the training military forces receive worldwide. This is an evolving process which is working well and has not impeded our training in the Pacific.

TRAINING

Question: What are your views on adaptive joint force packaging? Do these tailored forces provide you with sufficient capabilities to conduct anticipated military operations?

General Hopgood: United States Pacific Command's proven two tiered concept with designated, pre-trained joint task force commanders has proven ideal for the United States Pacific Command area of responsibility.

It is difficult to determine what missions or tasks the joint task force commander will be required to accomplish. Due to the dynamic geopolitical situation in the United States Pacific Command area, we have found it best to have a previously designated and trained joint task force commander and staff that is prepared to accept and command the joint force package tailored specifically to accomplish the mission.

Within our area of operations, we routinely practice this concept in both contingencies and joint exercises.

Assessing Readiness

Question: How do you, as the Commander in Chief, United States Pacific Command, assess the readiness of the forces that will be assigned to your command?

General Hopgood: Admiral Macke, Commander in Chief, United States Pacific Command, can best answer this question.

However, Pacific Command relies upon the providing commands to ensure the units are manned, equipped and trained to accomplish their wartime tasks before they deploy to the Pacific theater. Providing commands are accomplishing their mission in a superb manner in that the forces received by PACOM are routinely highly trained and well-prepared to accomplish their wartime tasks.

U.S./ROK DEFENSE RELATIONSHIP

Question: Are we going to be forward deployed in South Korea in perpetuity or is there a plan for a phased withdrawal of U.S. forces?

General Hopgood: The United States Security Strategy for the East Asia-Pacific Region states "Even after the North Korean threat passes, the United States intends to maintain its strong defense alliances with the Republic of Korea, in the interest of regional stability." While there is no longer a planned withdrawal of troops from the Korean peninsula, adjustments will be made from time to time due to changing security environments, technological advancements, and reorganizations required by changes in overall force structure. Our presence will remain strong enough to combat any existing threat and enable us to respond to global security contingencies.

Question: Has the Department of Defense (DOD) dropped its plans to remove about 6,800 U.S. military forces from South Korea as defined in the EASI?

General Hopgood: Yes. The plan to remove 6,800 troops from the Korean peninsula was initially put on hold due to the increased tensions brought about by the North Korean nuclear issue. During U.S.-North Korea negotiations, the decision was made to cancel the scheduled troop reduction and the East Asia Strategy Initiative (EASI) was replaced by The United States Security Strategy for the East Asia-Pacific Region which calls for a halt to the previously planned modest drawdown of troops from Korea.

Question: What indicators is the United States looking for to initiate reductions in U.S. presence in South Korea?

General Hopgood: As stated in The United States Security Strategy for the East Asia-Pacific Region, "Adjustments will be made from time to time due to changing security environments, technological advancements, and reorganizations required by changes in overall force structure."

Question: Given the North Korean nuclear accord, why can't the force reductions suggested in EASI go forward?

General Hopgood: While the 1990 and 1992 East Asia Strategy Reports envisioned troop reductions continuing through the end of the decade, the East Asia landscape has changed. The 1995 United States Security Strategy for the East Asia-Pacific Region significantly revised the force restructuring previously detailed in past East Asia Strategy Initiatives. Our forward deployed forces in Asia, based primarily in the Republic of Korea and Japan, have ensured broad regional stability, helped to deter aggression against our allies, and contributed to the tremendous political and economic advances made by nations of the region. Today, this commitment continues through a stable forward-deployed force of about one hundred thousand United States personnel.

Of this one hundred thousand force, thirty seven thousand are assigned to Korea. Even with a smooth implementation of the North Korea Nuclear Accord, North Korea's conventional force of one million four hundred thousand provides a significant threat to South Korea and regional stability. Reducing our forces in Korea during the current environment as well as the foreseeable future is not prudent.

THE "CATCH 22" SIGNIFICANCE OF THE U.S. MILITARY
 PRESENCE IN SOUTH KOREA AND COMMITMENT TO THE ROK

Question: This situation is well recognized within the U.S. military and political community. How can we overcome this and avoid inadvertently being the cause of the problem?

General Hopgood: The ROK Force Improvement Plan (FIP) includes objectives to lessen dependence on U.S. forces and to create a more balanced ROK joint force. It is designed to enable ROK armed forces to gradually assume a leading role in the defense of their country, and ultimately result in it being capable of defending itself.

Working to achieve the goal of self defense, the ROK cannot limit its FIP to just ground forces. The ROK is, however, making steady progress in modernizing its ground forces. We will continue to work with the ROK to ensure that its Force Improvement Plan addresses its ground force deficiencies.

Question: What can DOD do to encourage the ROK to focus on the immediate threat? What has DOD done in this regard?

General Hopgood: General Luck, as the Commander in Chief of Combined Forces Command, developed a Combined Forces Command ground force requirements list which identifies top priority ground force requirements for the command. He has informed ROK military leaders of CFC requirements and asked the ROK to include them in their military Force Improvement Plan. The ROK has done so and is taking positive steps but time as well as significantly higher expenditures of defense funds by the ROK are required in order for the ROK to procure and field this equipment. Therefore, the deficiencies will not be corrected overnight.

THE DIRECTION OF ROK MILITARY FORCE IMPROVEMENT EFFORTS

Question: What is the prognosis for U.S. ability to influence the ROK to place greater emphasis on ground force capability improvements?

General Hopgood: The ROK has developed a military Force Improvement Plan designed to lessen dependence on U.S. forces, enable it to assume a leading role in its own defense, and ultimately result in the ROK being capable of defending itself. This plan includes a significant number of active and planned improvement programs for the ROK. The ROK is making steady progress in modernizing its ground forces; however, it cannot, significantly alter its procurement plans due to long planning and acquisition lead times, and it cannot limit improvements only to ground forces.

GEN Luck, as the Commander in Chief of Combined Forces Command, has provided ROK military leaders a Combined Forces Command ground force requirements list which identifies top priority ground force requirements for the command. He has requested that the ROK include them in their military Force Improvement Plan. The ROK is doing so, but it will take time to procure and field this equipment. The deficiencies will not be corrected overnight.

Question: What impact does the current situation have on the combined forces' ability to fight?

General Hopgood: All current assessments of the combined ground forces' ability to meet a North Korean attack view the defense of the peninsula as being successful.

Question: Is continued intransigence on the part of the ROK a basis for redefining the U.S. forward deployed structure and the level of U.S. military assistance?

General Hopgood: I would not characterize "continued intransigence" as descriptive of the overall Republic of Korea defense efforts. The Republic of Korea's force improvement plans continue at a steady pace and include the formation of additional mechanized units, upgraded artillery and modernized armored units. Over the past five years, the Republic of Korea spent over three and one half billion dollars on United States weapons systems and spare parts. Although the Koreans are clearly transitioning to more of a leading role in their own defense, it remains essential that United States forces maintain our current posture in order to protect mutual security interests. A successful defense of the Republic of Korea can only be accomplished through a combined United States - Republic of Korea military effort.

IMPACT OF ROK DEFENSE INDUSTRY PRACTICES ON COMBINED
FORCES' CAPABILITY TO FIGHT A WAR IN KOREA

Question: Recognizing the ROK concern about building an indigenous capability to become military self-supporting in hardware development and production, what is the U.S. plan to encourage more decisions that lead to compatibility between the United States and the ROK regarding military hardware?

General Hopgood: U.S. military leaders and Defense Department officials stress the importance of interoperability to ROK officials at every opportunity. During these discussions, we point out specific interoperability problems and ask ROK officials to reconsider producing equipment that is not compatible. We also discuss potential cooperative research and development projects with ROK officials on a regular basis.

Question: Will the ROK continue to place a higher priority on its economic considerations at the expense of joint military capability?

General Hopgood: The ROK is now requesting more technology transfers and lower prices on military equipment it purchases from the United States. We often cannot release all the technology the ROK desires. As a result, the ROK is more frequently approaching European countries for arms purchases and, in the process, gaining access to new technologies. The ROK understands the importance of interoperability and will continue to pursue technology transfers as it modernizes its military forces.

BURDENSARING

Question: Why does the United States continue to pay a disproportionate share of these costs?

General Hopgood: Because of the cost sharing program with the Republic of Korea, it is actually less expensive to the American taxpayer to maintain our forces deployed in Korea vice their being stationed in the United States. It is in our national interest to maintain peace and stability on the Korean peninsula and support our commitments to the Republic of Korea in order to: (1) deter North Korean aggression; (2) maintain a capability to rapidly deploy to regional contingencies; and, (3) demonstrate U.S. commitment to peace and stability throughout the entire Asia-Pacific region. The Special Measures Agreement with the Republic of Korea called for a Republic of Korea contribution to burdensharing of 1/3 of the won-based costs associated with supporting U.S. forces in Korea by 1995. The U.S. Ambassador for Burdensharing is negotiating with the Republic of Korea for a multi-year agreement requiring increased contributions.

Question: How long will the United States continue to pay for these costs?

General Hopgood: The United States will continue to station forces on the Korean peninsula well into the foreseeable future and benefit from the generous burdensharing contributions by the Republic of Korea. It has been acknowledged that it is actually less expensive to station troops in Korea due to Seoul's burdensharing contributions. It is in our national interest to maintain regional stability. Forward presence is desired, especially if the cost can be reduced through burdensharing as it is in the ROK.

Question: Doesn't this condition amount to an unnecessary U.S. taxpayer subsidy to the ROK?

General Hopgood: The stationing of U.S. troops in South Korea with the ROK paying approximately 1/3 of the won-based costs actually saves the United States taxpayer money. The Korean burdensharing contribution of \$300 million in 1995 is \$300 million our taxpayers would have paid if the troops would have been stationed elsewhere. In addition to providing a defense against a North Korean invasion, our forces satisfy other national interests such as maintaining the capability to rapidly deploy to regional contingencies and demonstrating our resolve for ensuring stability throughout the entire Asia-Pacific region. It is actually the ROK who is subsidizing the accomplishment of the United States' objectives.

INTEGRATED PRIORITY LIST

Question: What are some of the items identified by your command on the "integrated priority list" and, of these, what do you view as the most critical?

Major General Franks: U.S. Forces Korea (USFK) inputs to the Integrated Priority List (IPL) are integrated within the USCINCPAC IPL. This is done through the Pacific Theater Requirements System (PTRS) which is the means to identify, integrate and prioritize all theater requirements needing CINCPAC support during budget deliberations. PTRS inputs are reviewed and compiled into a USCINCPAC Master Requirements List (MRL) which is a categorized list of USCINCPAC requirements to support key theater programs. The MRL is used to create the USCINCPAC IPL which is forwarded to JCS. We concur with the current prioritization by CINCPAC.

The five top priorities for Fiscal Year 97 are:

~~SECRET~~

LIFT

Question: Last year, the committee provided \$50 million for a mobility enhancement package and has received a list of critical areas where this money is needed. In our hearings with the services and with the CINCs, one message comes through loud and clear: lift is the most pressing requirement. What are your views on specific items that are needed now to ensure that mobility is provided for your AOR?

Major General Franks: Continued emphasis and appropriations to support acquisition of the C-17 fleet and the Large, Medium Speed Roll-On Roll-Off must be continued. Strategic lift is the most critical component for effective power projection. Execution of OPLAN 5027 hinges on rapid reinforcement of the combined forces with critical warfighting material and forces. We are also currently working with the Republic of Korea (ROK) government through the Logistic Cost Sharing Program to buy eighty (80) additional rail cars at an estimated cost of \$16,000,000 in Calendar Years 96-99. With a total of one hundred and forty (140) we will be able to move two tank battalion equivalents to their TAA every forty eight (48) hours and have a maintenance float/preload capability.

CATEGORIZING READINESS AND PRIORITIES

Question: The Department of Defense places readiness into three categories:

Near term: largely robust O&M spending.

Medium term: more intangible such as quality of life and people programs.

Long term: modernization of equipment and maintaining the technological advantage enjoyed by U.S. forces.

What are your personal views on how this balance is being maintained and what are your concerns?

Major General Franks: The need to maintain military resources through O&M, provide for quality of life, and modernize the force are a difficult balance to retain during force downsizing. That balance, however, is working for USFK. Our greatest concern is that the current levels of support may decrease, in the future, as competition for resources continue to grow. The bottom line is, that we currently do not need any more, but we can't do with any less and still maintain the balance we need to maintain the Armistice.

CRITICAL FORCE ENHANCEMENTS

Question: There is an emerging consensus that critical force enhancements are essential in the following categories:

- strategic mobility including airlift, sealift and prepositioning;
- advanced precision-guided munitions to increase the lethality and survivability of U.S. forces;

- enhancements to surveillance and command and control, and communications capabilities;

- improved readiness among selected reserve component forces, particularly the 15 brigades of the Army National Guard.

Please provide your personal views on these priorities and what other types of enhancements are necessary for you to perform your taskings?

Major General Franks: We support all the critical force enhancements you have listed. The current force levels on the peninsula make reinforcement, in the event of hostilities, critical to our campaign plan's success. The initiatives in strategic mobility including the prepositioning of strategic air and sea lift are necessary to assure timely force closure. Advanced munitions will offset the numerical advantage of the enemy to some extent but must be bought in quantities that will swing the balance of power to our advantage. Enhancements in C4I are also critical to giving Combined Forces Command (CFC) the advantage in command and control agility. With the downsizing of the military our reserve components have had to assume an increased and essential role in our OPLAN. The enhanced brigades of the Army provide necessary depth to our ground forces and help ensure success in our campaign plan.

CRITICAL CAPABILITIES

Question: Please provide your views on the adequacy of the capability in the following areas:

- Chemical and biological weapons defense.
- Mine countermeasures.
- Command, control and communications.
- Precision munitions.

Major General Franks:

CHEMICAL AND BIOLOGICAL WEAPONS DEFENSE. CFC believes that the North Korean pose a credible biological and chemical threat. Both ROK and U.S. forces regularly conduct training to operate and perform their mission in an NBC environment. The U.S. forces in Korea continue to modernize NBC equipment with the U.S. Army fielding within the last 12 months the M40 series protective mask and the Chemical Agent Monitor (CAM).

CFC has developed contingency plans to deal with the North Korean threat of NBC weapons.

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MINE COUNTERMEASURES.

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COMMAND, CONTROL AND COMMUNICATIONS. Current command, control and communications capabilities are adequate. Joint interoperability shortfalls between U.S. services are being addressed and corrected DOD-wide. In the Korean theater, we have identified a prioritized set of near-, mid-, and long-term C4I initiatives to continue to improve joint warfighting readiness. Interoperability shortfalls between U.S. and ROK systems continues to be a major challenge facing this command. While U.S. and ROK forces have been operating and training successfully together as adjacent and combined forces, there is still a great need for improving combined interoperability. CFC has begun this process, but continuous and coordinated efforts are needed to focus on this goal.

PRECISION MUNITIONS. 7th Air Force has increased its stockpiles of on-peninsula precision guided munitions (PGMs).

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While the current stockpiles are approaching acceptable levels, efforts will continue to acquire the latest variants of PGMs as they become available.

END GAME ON TASKINGS

Question: We are involved in some rather extensive peacekeeping and humanitarian efforts. For example, the Cuban problem at Guantanamo is going far longer than envisioned, the no-fly efforts in Bosnia and Iraq have been longer than expected. How do you view the need for establishing an end-game for these conflicts and are there ways to accelerate the reduced involvement of U.S. forces?

Major General Franks: Guarding against threats to United States' interests requires the use of appropriate military capabilities in concert with the economic, diplomatic, and informational elements of our national power. Our Armed Forces are engaged world-wide on a continual basis to accomplish two national military objectives -- promoting stability and thwarting aggression. We anticipate a considerable period before stability returns to our strategic environment. Our peacekeeping and humanitarian efforts along with our overseas presence are necessary to counter regional instability, impede the proliferation of weapons of mass destruction, reduce the impact of transnational threats, and support democracy and reform. All of these are important for promoting stability and deterring aggression.

Our Armed Forces stand always ready to participate in humanitarian and disaster relief operations at home and abroad. Our greatest contribution to these operations resides in our ability to rapidly respond when more traditional relief agencies are overwhelmed. After these organizations are "up and running," military forces can be withdrawn.

When appropriate, we prefer to share the burden of peacekeeping with allies and friends. When the United States participates in an operation, we will seek a clear delineation of the objectives from the outset, ensuring an unbroken chain of command to the President, and rules of engagement to protect our forces and permit the proper execution of assigned tasks.

WAR GAMES AND JOINT EXERCISES

Question: We have heard that significant progress has been made in linking above-corps-level training simulations of the individual services through joint exercises. Please describe this process and also, describe your efforts and results in war games and joint exercises?

Major General Franks: Aggregate Level Simulation Protocol (ALSP) is the name of the technical process that allows the individual Services to confederate their formerly stand-alone simulation models into interactive joint simulations connected over a local or a wide area network. The ALSP facilitated "Confederation of Models" allows each model to operate its unique Service activities and simultaneously share that information with other simulations in the confederation. Currently, the Confederation includes the Army's Corps Battle Simulation (CBS), Air Force's Air Warfare Simulation (AWSIM), the Navy Research, Evaluation, and Systems Analysis (RESA), the Joint Electronic Combat Warfare Simulation (JECEWSI) and an intelligence model called Tactical Simulation (TACSIM). Each year the ALSP is refined and improved, as are the Service models, and new capabilities and/or models are incorporated. CFC/USFK conducts the largest and most complex simulation supported warfighting exercise called ULCHI FOCUS LENS. By using the Confederation of Models, CFC/USFK can provide highly realistic and detailed warfighting training to the Command's land, air, sea, marine and special operations warfighting staffs. This has clearly been our best theater level training capability for joint/combined warfighting.

JOINT PLANS AND EXECUTION

Question: The Joint Operation Planning and Execution System or JOPEs is used to build operations plans and to manage deployment. It also is used to Build the Time Phase Force and Deployment Data Base (TPFDD).

To what extent are these systems used? Are they reliable? And, to what extent are deviations required in actual deployments? What improvements would you recommend?

Major General Franks: Both JOPEs and the World Wide Military Command and Control System (WWMCCS) it operates on are used daily in my theater. Troops deploy for exercises through this system and it was effectively utilized to bring forces here quickly when required. The reliability of the system has been excellent and deviations are not routinely used. These systems will soon be replaced by the Global Command and Control System. This updated system will be a better deliberate planning tool and improve our ability to deploy forces quickly in a contingency.

COMPONENT TASKINGS

Question: When Admiral Boorda testified before the committee, he stated that he has had to ask the CINCs for relief from some taskings due to shortfalls in the Navy. What taskings was he talking about? Have other components come to you asking for similar relief?

Major General Franks: USFK has not been asked by any component for relief of taskings.

DEFENSE SCIENCE BOARD TASK FORCE ON READINESS

Question: The Defense Science Board Task Force on Readiness made specific recommendations regarding the need for better measures of joint readiness. What measures have been taken to improve joint readiness assessments, and how have these measures improved the accuracy of readiness assessments? Specifically, have any of the new measures lessened the degree to which the JCS must rely on commanders' subjective assessments, or improved the ability to predict future readiness status?

Major General Franks: The Joint Monthly Readiness Review (JMRR) is our newest assessment tool within USFK and throughout the various Joint Staffs. Its purpose is to identify and analyze critical deficiencies that may reduce or preclude our CINCs' performance of assigned missions, and to propose solutions for the deficiencies. The JMRR is a subjective assessment and has not lessened the need to rely on a commander's judgment to determine the warfighting capabilities of his command. Future readiness is improved or degraded based on that commanders resources to correct deficiencies discovered in the assessment of the command.

REPORTING READINESS

Question: The JCS recently implemented the Joint Readiness System for the CINCs to use in reporting readiness. Please describe:

a. How the new system provides a more objective readiness assessment, and

b. The specific criteria that has been provided to the CINCs for reporting in the eight areas of the Joint Monthly Readiness Review?

Major General Franks: The new Joint Monthly Readiness Review (JMRR) provides a subjective assessment of the CINC's ability to integrate and synchronize ready combat and support forces to execute his assigned missions. The JMRR provides an assessment through the evaluation of a given set of metrics or criteria to help the commander determine the strengths and weaknesses of the command.

The eight JMRR assessed areas are listed along with the specific criteria for evaluating each one:

MOBILITY. Strategic Airlift, Strategic Sealift, Spacelift, Special Operations-Movement, Intratheater Mobility and Throughput.

INTELLIGENCE/SURVEILLANCE/RECONNAISSANCE. IMINT, SIGINT, HUMINT, MASINT, Mapping Charting & Geodesy Collection, Weather, Collection Management, Processing, and Dissemination.

JOINT HEADQUARTERS CAPABILITY. Training and Exercises, Headquarters Organization, Joint Doctrine, Planning, Personnel Availability, Manning and Staffing, Allocation of Forces, and the Universal Joint Task List (consists of nine different areas tailored to the command).

COMMAND, CONTROL, COMMUNICATIONS, AND COMPUTERS (C4). SATCOM, Deployable Command Center C4, Combined C4 Systems, Combined/Joint Interoperability, Combined/Joint Network Management, Voice, Message, Data Networks and Terrestrial Systems, and the Strategic Network.

LOGISTICS/SUSTAINMENT. Supply, Maintenance, Transportation, Services, and Facilities.

SPECIAL OPERATIONS. Direct Action, Unconventional Warfare, Psyops, Civil Affairs, Foreign Internal Defense, Special Reconnaissance, Counter-terrorism, Humanitarian Assistance, Disaster Relief, Counter Drug, Combat Search and Rescue, Humanitarian Civil Affairs, and HUMINT.

INFRASTRUCTURE. Road Networks, Airfields, Seaports, Rail Networks, Water Distribution, POL Distribution, Beddown for Personnel & Equipment, Operational Required Facilities, Medical Facilities, and Power Generation.

JOINT PERSONNEL. PERSTEMPO, Availability of Reserve Components and Civilians, Manning Gaps, and Critical Fill/Shortage Issues.

JOINT EXERCISE PROGRAM

Question: According to JCS officials, the Chairman's Joint Exercise Program includes exercises that are of marginal training value while other so-called joint exercises involve only a single Service. What actions are being taken to improve the joint training program?

Major General Franks: CFC/USFK has a dynamic exercise training program that encompasses not only joint training scenarios involving all U.S. Services, but also includes all Services of the ROK. This Command recently completed a restructuring of the CFC/USFK exercise program to incorporate recent Chairman exercise guidance to improve the Joint Training Program and decouple critical training from the uncertainties of TEAM SPIRIT. There are no single service CFC/USFK exercises. Each of the four theater level exercises is designed to train elements from all U.S. and ROK services as follows: FOAL EAGLE (FE) -- a field training exercise focused on special operations, rear area operations and security, and force-on-force operations; RECEPTION, STAGING, ONWARD MOVEMENT, AND INTEGRATION (RSOI) -- a command post exercise focused on the operational and logistical aspects of receiving, staging, onward movement and integration of augmenting U.S. forces into CFC's warfighting commands; ULCHI FOCUS LENS (UFL) -- a simulation supported command post exercise that focuses on the coordinated and effective execution of the theater's warfighting OPLAN; and, TEAM SPIRIT (TS) -- a field training exercise focused on force-on-force operations.

JOINT OPERATIONS

Question: Recently, JCS made significant changes to its strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command. Other regional CINCs have voiced concerns about the command's ability to train forces for their use. What actions are being taken to address these concerns?

Major General Franks: USFK receives trained and ready forces from the services and various CINCs in wartime and has every confidence that they will be ready to fight no matter who trains the forces.

READINESS

Question: Are you adequately resourced to accomplish the needed training to meet the range of mission requirements?

Major General Franks: The USFK are adequately resourced to train and meet mission requirements. The current funding levels allow for a wide variety of needed training at all levels to ensure that Joint forces are truly joint in their fighting abilities.

Question: What are the current restrictions on training range access for both ground and air training? What training is not being accomplished and what is the readiness impact? How are training deficiencies being addressed?

Major General Franks: Eighth U.S. Army (EUSA) range and training land has limited restrictions on access. Encroachment is a concern but it does not have a significant impact on ranges. However, encroachment does have some impact on EUSA training areas but it cannot be removed due to the nature of the land grant from Minister of National Defense (temporary use). Our greatest access restriction is with ROK training land. Land exists within the ROK military to supplement EUSA's real estate shortfalls (2000+M ranges and battalion level maneuver areas). However, access is difficult because (1) competition with ROK forces in their use and (2) doctrinal differences (Calendar Year scheduling and decentralized control of ranges and training land). Currently, EUSA is capable of conducting qualification gunnery on all systems due to waivers allowed by Department of the Army or the weapon system doctrinal proponent. We are also capable of piecing together enough maneuver land to allow battalion level maneuver training to occur. However, EUSA wants standard ranges and training land for its forces to train to the highest standard. We have initiated U.S.-ROK Status of Forces Agreement Article II land acquisition negotiations for MLRS and aviation systems gunnery ranges and a Maneuver Rights Area; Mutual Logistics Support Agreement negotiations for Air Defense Artillery firing ranges; monthly range and training land scheduling conferences with the Third ROK Army; and raised these issues to appropriate levels in order to gain support in their resolution (MCM).

IMPACT OF CONTINGENCY OPERATIONS

Question: Do you have any concerns about the Services' ability to access sufficient numbers of reserve component volunteers to meet the requirements of contingency operations?

Major General Franks: USFK has no concerns at this time.

Question: What has been the impact of contingency operations on your readiness for major regional conflicts?

Major General Franks: USFK does not, by and large, get tasked to provide forces for operations outside of the Korean area of operations.

Question: What have you identified as the units or capabilities most stressed in meeting operational requirements? What has been the impact on readiness of these units or capabilities to respond to regional conflicts? Are you satisfied that sufficient corrective action is being taken to relieve this situation?

Major General Franks: Contingency operations have had little impact on USFK. It is the exception rather than the rule that USFK is tasked to deploy a unit outside of the Korean area of operations in support of a contingency operation. Most recently USFK was asked to provide personnel that had Haitian language capabilities for deployment operations in Haiti. The deployment of these personnel did not impact USFK operations.

Question: Do you expect the high pace of operations to continue? If so, what do you see that needs to be done to ensure force readiness to meet your short-term and long-term requirements?

Major General Franks: The high pace of operations in USFK is about right. Our forces, by and large, do not deploy outside of the Korean area of operations to perform contingency missions.

TRAINING

Question: Recently, JCS made significant changes to the strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command.

- a. What has been the experience with this concept?
- b. Does it impede your ability to conduct their training programs?

Major General Franks: While representatives of the U.S. Atlantic Command (USACOM), in their role as CONUS force provider, did participate in the initial development of USFK OPLAN 5009, USFK has not requested, utilized or employed USACOM Adaptive Joint Force Packages (AJFP) on the peninsula as U.S. Pacific Command (USPACOM) is the force provider for this theater. Thus, the AJFP concept has not impeded nor directly enhanced our joint warfighting capabilities.

Question: What are your views on adaptive joint force packaging? Do these tailored forces provide you with sufficient capabilities to conduct anticipated military operations?

Major General Franks: We believe that the AJFP concept has validity in joint force training and that USACOM is committed to providing the force packages as and if requested, and to train those forces to the standards set forth by the requesting warfighting theater CINC.

ARMY NATIONAL GUARD ENHANCED READINESS BRIGADES

Question: Although 15 enhanced brigades in the Army National Guard are a critical element of the Clinton military strategy, the Army continues to experience major problems in adjusting its training strategy to meet this need.

Are these brigades fully integrated into your contingency scenario? Are you comfortable that the readiness levels of these brigades are adequate to be fully integrated into your contingency plans? If not, what improvements are needed?

Major General Franks: We support the strategy of the enhanced brigades and look forward to the identification by the Army of the specifics of how this strategy will be executed.

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SOUTH KOREAN CAPABILITIES

Question: We have a GAO report that is highly critical of the South Korean warfighting capabilities. The South Koreans have primary responsibility for the conduct of the land war, what are your concerns in this area?

Major General Franks: CFC forces can fight and win if called upon to defend the Republic of Korea. We have no serious concerns about their ability to fight and win.

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U.S. READINESS FOR KOREA MRC

Question: The 37,000 United States forces in South Korea, including the 12,700 U.S. Army personnel of the forward deployed 2nd Infantry Division rely heavily on reinforcements in order to combat a North Korean attack on the South. Under the BUR's two MRC scenario, there are questions as to whether the United States would be able to lift enough personnel and materiel in time to support the U.S. forces on the ground.

Are you comfortable that the United States can deliver enough personnel manpower to combat a full-scale North Korean invasion?

Major General Franks: We are confident that the Services can provide the personnel necessary to fulfill the U.S. commitment to the Combined Forces Command/United Nations Command. There are two factors involved -- availability of personnel and the ability to move them. Some of the personnel who are scheduled to deploy to Korea are reservists in each of the Services. The ability of the U.S. to deliver sufficient personnel to counter a full-scale North Korean invasion is first linked to the country's ability and willingness to conduct mobilization. Mobilization will bring those personnel in the reserve components to active duty so they can be deployed. A related issue in the event of a protracted war in Korea is the ability of the U.S. to expand the training base to provide trained replacements from the civilian population. The second factor is the ability to move the personnel. Plans call for the use of military airlift and the civil reserve air fleet to move personnel. Although, strategic airlift capability can be a limiting factor, we are confident that U.S. Transportation Command will most effectively use those assets available. We recognize that airlift limitations (due to lack of airframes, lack of pilots, maintenance problems, etc.) will constrain the movement of personnel to Korea just as those limitations would constrain movement to any theater. We are also aware that the challenges of strategic movement will be multiplied if the U.S. were to become involved in more than one conflict at the same time.

Question: What are the readiness shortcomings of U.S. forces and how are these being addressed in the 1996 budget?

Major General Franks: All of our ground, air, and naval forces are prepared to execute their wartime mission. A number of units have readiness challenges due to shortages in personnel, spare parts and some equipment end items. These shortages currently do not have a major impact on readiness. However, in the event of heightened tensions, additional assets are required to ensure peak readiness and enhance our warfighting capability. Thanks to recent efforts by the Congress and DOD, funding in the President's Fiscal Year 96 budget request will support our readiness goals.

OTHER NATION COMMITMENTS

Question: Besides the United States, what other nations in the region have committed to the defense of South Korea?

Major General Franks: There is an existing coalition, the United Nations Command (UNC), which is designed to accept and coordinate the efforts of active members to repel a North Korean invasion. Besides the United States and the Republic of Korea, there are eight other currently active members (Australia, Canada, New Zealand, United Kingdom, France, Philippines, Thailand, and Columbia). We would expect some form of assistance from any or all, depending upon circumstances. Additionally, the UNC can accept contingents from any other UN member nation, former UNC member or not, that desires to participate in the effort. Some nations, such as Japan, may choose to contribute support and assistance without actually participating in military operations. None of the active UNC member nations have forces specifically committed for this contingency at this time.

CRITICAL MUNITIONS AND WAR RESERVES

Question: How would you describe the state of war reserves and critical munitions stockpiles for U.S. forces? Are you comfortable that follow-on supplies of this materiel would arrive in time?

Major General Franks: Sufficient stocks of munitions and war reserves (repair parts, subsistence, major end items, clothing and individual equipment) are either on-hand or readily available in theater and CONUS stockpiles. Therefore, strategic lift to ensure off peninsula assets arrive on time in Korea along with receipt of follow-on sustainment (resupply) represents a critical ingredient to execute our mission. Recently completed storage facilities for Army war reserve stocks in Korea will expand availability of onhand assets and account for more efficient use of strategic lift. Thus, availability of C-17 aircraft and Large Medium Speed Roll-On Roll-Off ships together with emphasis on procurement of modern/preferred munitions remain essential elements for increasing our warfighting capability.

LESSONS LEARNED

Question: Last year, the United States deployed forces to South Korea as tensions rose over the nuclear situation in North Korea. This included a deployment of Patriot missiles, deployment of a carrier battle group, forward deployment of aircraft and other assets.

What lessons were learned from this deployment that could be used in future deployments?

Major General Franks:

IMPACT OF CONTINGENCY OPERATIONS

Question: How has the recent high level of contingency operations affected your ability to conduct training and joint exercises? How many joint exercises have been canceled?

Major General Franks: CFC/USFK conducts several theater level training exercises each year. These training events involve both U.S. forces stationed in the ROK and augmenting forces from the USPACOM and CONUS. The recent high level of contingency operations have had some impact on the CONUS forces that routinely participate in CFC/USFK exercises; however, sufficient forces have always been available to conduct all exercise activities and to satisfy all training requirements. No joint exercises have been canceled for this reason.

Question: Has the Army been able to supply the needed support personnel to meet the requirements for contingency operations? To what extent have personnel been transferred between units to meet these requirements? How has this affected the readiness of losing units and their training?

Major General Franks: USFK does not normally provide personnel to contingency operations in other theaters. However, we expect to receive personnel from elsewhere in the event of a crisis here. The only recent experience occurred during a period of heightened tensions from April through August 1994. At that time, personnel were deployed to Korea for periods of up to 179 days in order to augment the staffs of the UNC, CFC, USFK, and EUSA so that those staffs would have enhanced planning capability and would be capable of 24-hour operations if required. Personnel were sent to Korea from active duty CONUS-based units. We did not transfer any personnel within the theater. Our knowledge of the effect on the losing units is based on information received from the individuals themselves. Many were taken out of critical positions in their units (e.g., battalion operations officer, battalion executive officer, brigade operations officer) to fill the positions here in Korea. As a result, the CONUS units were forced to accomplish their missions with subordinates or assistants serving in place of the principals.

Question: Do you have any concerns about the services' ability to access sufficient numbers of reserve component volunteers to meet the requirements of contingency operations?

Major General Franks: USFK has no concerns at this time.

Question: What has been the impact of humanitarian and peacekeeping contingency operations on your readiness for major regional conflicts?

Major General Franks: Assets which would provide sustainability for USFK for the immediate period after D+30 are contained on PREPO vessels which are located at Diego Garcia and other locations. Materiel aboard these vessels are considered "swing stocks" which are available to meet humanitarian and peacekeeping operations worldwide. In the event that these ships are deployed elsewhere, as was the case in Kuwait last year, sustainability stocks aboard these vessels would not be available for Korea. Department of the Army has recognized this possibility, and recently authorized an increase to AWR-4 levels sufficient to provide "on the ground" sustainment beyond D+30. Complete fill of these increased levels would minimize the impact of the PREPO ships being deployed elsewhere. Additionally, assets aboard the PREPO vessels are being reconfigured to assure that humanitarian and peacekeeping assets are not mixed. This will allow for deployment of ships carrying humanitarian equipment separate from those ships carrying peacekeeping or warfighting assets.

Question: What have you identified as the units or capabilities most stressed in meeting operational requirements? What has been the impact on readiness of these units or capabilities to respond to regional conflicts? Are you satisfied that sufficient corrective action is being taken to relieve this situation?

Major General Franks: Contingency operations have had little impact on USFK.

It is the exception rather than the rule that USFK is tasked to deploy a unit outside of the Korean area of operations in support of a contingency operation. Most recently USFK was asked to provide personnel that had Haitian language capabilities for deployment operations in Haiti. The deployment of these personnel did not impact USFK operations.

Question: Do you expect the high pace of operations to continue? If so, what do you see that needs to be done to ensure force readiness to meet your short-term and long-term requirements?

Major General Franks: The high pace of operations in USFK is about right.

Our forces, by and large, do not deploy outside of the Korean area of operations to perform contingency missions.

Question: Contingency operations appear to be changing in nature from short-term, in and out operations, to one of semi-permanent status. How does this changing nature of OOTW affect both short-term and long-term concerns with respect to readiness?

Major General Franks: Contingency operations have had little impact on USFK.

USFK relies upon the providing commands to ensure the units are manned, equipped and trained to accomplish their wartime tasks before they deploy to theater.

READINESS

Question: The committee has found serious problems with the readiness of certain units. The CINC PACOM must rely upon these units for a deployment.

What has been your observation of the readiness of the forces that are being provided to PACOM?

Major General Franks: USFK relies upon the providing commands to ensure the units are manned, equipped and trained to accomplish their wartime tasks before they deploy to the theater. We frequently work with some of those units when they deploy to the theater on various exercises and have found them to be well trained and equipped.

Question: What readiness requirements are not being met due to a lack of, or constraints on, resources?

Major General Franks: Readiness requirements for EUSA units are generally being met under existing Authorized Level of Organization (ALO). In the event of contingency/war, EUSA

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JOINT TRAINING

Question: Recently, JCS made significant changes to the strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command.

What has been the experience with this concept?

Major General Franks: While representatives of the USACOM, in their role as CONUS force provider, did participate in the initial development of USFK OPLAN 5009, USFK has not requested, utilized or employed USACOM Adaptive Joint Force Packages (AJFP) on the peninsula as USPACOM is the force provider for this theater.

Question: Does it impede your ability to conduct training programs?

Major General Franks: USFK has not requested, utilized, or employed AJFPs on the peninsula. Thus, the AJFP concept has not impeded nor directly enhanced our joint warfighting capabilities.

Question: What are your views on adaptive joint force packaging? Do these tailored forces provide you with sufficient capabilities to conduct anticipated military operations?

Major General Franks: We believe that the AJFP concept has validity in joint force training and that USACOM is committed to providing the force packages as and if requested, and to train those forces to the standards set forth by the requesting warfighting theater CINC.

ARMY NATIONAL GUARD ENHANCED READINESS BRIGADES

Question: Although 15 enhanced brigades in the Army National Guard are a critical element of the Clinton military strategy, the Army continues to experience major problems in adjusting its training strategy to meet this need.

Are these brigades fully integrated into your contingency scenario? Are you comfortable that the readiness levels of these brigades are adequate to be fully integrated into your contingency plans? If not, what improvements are needed?

Major General Franks:

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ASSESSING READINESS

Question: How do you, as the CINC, assess the readiness of the forces that will be assigned to your command?

Major General Franks: USFK relies upon the providing commands to ensure the units are manned, equipped and trained to accomplish their wartime tasks before they deploy to the theater. We frequently work with some of those units when they deploy to the theater on various exercises and have found them to be well trained and equipped.

U.S./ROK DEFENSE RELATIONSHIP

Question: The United States has an open ended treaty commitment to assist the Republic of Korea (ROK) in the event of an attack. Nothing is written that the United States will become involved militarily, although the treaty has been interpreted to include this type of support.

The United States has provided military support for over 40 years since the end of the Korean War.

The ROK has the ability to pay for its defense needs.

The ROK is not militarily self-sufficient and continues to rely on the United States for its defense.

Are we going to be forward deployed in South Korea in perpetuity or is there a plan for a phased withdrawal of U.S. forces?

Major General Franks: There is no plan to withdraw U.S. forces from the Korean peninsula. In February 1995, the Secretary of Defense formally announced that the U.S. will maintain approximately 37,000 military personnel in the Republic of Korea. This announcement came as a part of the publication of the 1995 U.S. Security Strategy for the East Asia-Pacific Region. U.S. presence will remain in Korea as long as our forces are welcome in the Republic of Korea and our presence is required for regional stability.

Question: Has the Department of Defense (DOD) dropped its plans to remove about 6,800 U.S. military forces from South Korea as defined in the EASI?

Major General Franks: Yes. The Department of Defense has dropped all plans to remove U.S. military forces from the Korean peninsula. EASI was replaced by the February 1995 publication of the U.S. Security Strategy for the East Asia-Pacific Region. The new East Asia Strategy Report cancels all previous plans to withdraw U.S. forces from the Korean peninsula. The U.S. presently maintains a force of approximately 37,000 military personnel in Korea.

Question: What indicators is the United States looking for to initiate reductions in U.S. presence in South Korea?

Major General Franks: The U.S. will maintain forces in the Republic of Korea as long as our presence is welcome and our forces are required to maintain regional security. We envision continuing our robust U.S. security relationship with the Republic of Korea well into the 21st Century, even if the threat from North Korea were to diminish. The U.S. force structure that complements this relationship will be determined by both political realities and security requirements of the time.

Question: Given the North Korean nuclear accord, why can't the force reductions suggested in EASI go forward?

Major General Franks: U.S. force reductions in Korea, that were identified in the 1992 EASI, were officially canceled with the February 1995 publication of the U.S. Security Strategy for the East Asia-Pacific Region. North Korea's history of aggression, threats to peace, and exports of missile technology have created a context in which its development of nuclear weapons would be an extremely dangerous threat to security on the Peninsula, in Asia and for global non-proliferation. Regardless of the Agreed Framework, North Korea's conventional military threat to the Republic of Korea has not abated, and requires continued vigilance and commitment of the United States forces.

THE "CATCH 22" SIGNIFICANCE OF THE U.S. MILITARY
PRESENCE IN SOUTH KOREA AND COMMITMENT TO THE ROK

Question: The ROK believes that the United States shares equal responsibility and interest for preserving peace in Korea.

The United States has thousands of U.S. military personnel in Korea and in the theater to support the ROK in the event of a war.

In addition, plans for supporting Major Regional Conflict-West calls for multiples of the number deployed in South Korea to deploy to South Korea should a war occur.

The fact that this significant U.S. military forward deployment exists and the commitment of significant amount of follow-on forces and material, the ROK have developed a strong sense of security based on U.S. military support.

This reduces the sense of urgency in developing a greater self-sufficiency and perpetuates a reliance on the United States for national security relative to a potential war with North Korea. In addition, stated plans to reduce U.S. force levels fosters the sense within the ROK that the eventual withdrawal of U.S. military requires that it concentrate now on developing a regional military force -- a military development direction that is contrary to U.S. preference that the ROK concentrate on ground force improvements designed to better defend against an attack from North Korea. One recent media article stated that the ROK spell defense "USA".

This situation is well recognized within the U.S. military and political community. How can we overcome this and avoid inadvertently being the cause of the problem?

Major General Franks: The ROK military adheres to the combined defense

strategy where their task is to provide the preponderance of ground forces.

The ROK ground force is sufficient to meet their share of CFC's task to deter and defeat outside aggression against the ROK. Ground force improvements for the ROK's 550,000 plus army continue to significantly add to our ground defense.

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Question: What can DOD do to encourage the ROK to focus on the immediate threat? What has DOD done in this regard?

Major General Franks: General Luck, Commander in Chief of the ROK/US Combined Forces Command, provides CFC's military requirements to the Permanent Military Committee for analysis at the annual MCM. These requirements are reviewed and any contentious issues are discussed thoroughly. The ROK Joint Chiefs of Staff has been cooperating with CFC and providing feedback on the FIP by releasing their Joint Strategic Objectives Plan, which outlines the individual services' budget requests to Minister of National Defense (MND). Additionally, CINC CFC holds regularly scheduled meetings with the Chairman of the ROK JCS, in which he is able to address all common issues.

The questions, however cover more than the ROK Force Improvement Program. The ROK military budget, not unlike the U.S. process, must be approved at many levels from JCS to MND to the National Assembly. The ROK military's focus is clearly on the immediate threat posed by the DPRK. This is evident in the ROK military's training programs and overall combat readiness. ROK JCS is striving to meet the operational requirements as outlined in CINC CFC OPLAN 5027. The ROK government, on the other hand, is looking past operational concerns to the future strategic environment. The long lead times for today's large and technically sophisticated weapons systems drives this view. Additionally, from the ROK perspective, the United States has emphasized a lessening of its role in Korea and Northeast Asia ("leading to supporting") since 1969. It is prudent, therefore, for the ROKG to concentrate on long term planning and acquisition to provide a balanced defensive force.

THE DIRECTION OF ROK MILITARY FORCE IMPROVEMENT EFFORTS

Question: The United States and the ROK have different opinions regarding the threat of a North Korean attack and how to prepare for it.

Should war occur in Korea, it will be largely a ground war with ROK forces providing the majority of the defense efforts -- particularly in the early and critical stages of the war.

The ROK is spending a significant amount of its force improvement budget on military improvements designed more for developing a regional force than for improving their ground force capability. For example, the ROK is procuring F-16 fighter aircraft and naval submarines and destroyers and may also be looking to procure an AWACS-type capability.

Success of U.S. efforts to have the ROK place more emphasis on ground force capability have been mixed.

The ROK ability to redirect resources for ground war improvements may be limited due to the ROK funding commitments to procure major defense items and questions about the likelihood of significant increases in the ROK defense budget.

What is the prognosis for U.S. ability to influence the ROK to place greater emphasis on ground force capability improvements?

Major General Franks: Since 1988 ROK MND funding and ROK JCS planning closely aligns with CINC CFC military requirements.

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CINC CFC foresees significant probability that the ROK MND will continue with its stated objectives for force improvements and attempts to accommodate CFC military requirements.

THE DIRECTION OF ROK MILITARY FORCE IMPROVEMENT EFFORTS

Question: What impact does the current situation have on the combined forces' ability to fight?

Major General Franks: CFC maintains a high state of readiness to deter and defeat any North Korean aggression. The ROK military continues to adhere to our combined strategy and meets all OPLAN obligations. The "current situation" and our outlook of the future is positive in regards to ROK military improvements' impact on CFC's ability to fight. CFC's military capabilities have risen with the maturing of the ROK military. Many elements of the ROK force improvement plans since 1974 continue to add to the strength of our combat capabilities even though some improvement programs may not have been or may not be CFC military requirements. As the ROK military continues to strive for a balance in its combat capabilities, CFC will continue to receive the benefits of a strengthening ground force along with a more capable ROK air force and navy.

Question: Is continued intransigence on the part of the ROK a basis for redefining the U.S. forward deployed structure and the level of future U.S. military assistance?

Major General Franks: The ROK military strategy of deterrence and its associated improvement plans are not a deviation from CFC planing. A need to alter the U.S. strategy of forward engagement in Korea should be based on changes in our assessment of regional stability and America's desires to influence northeast Asia issues as they relate to U.S. interests. ROK military planning does not signify a need to change our strategy. CFC and our alliance with Korea is a vital component of our national objective to support and promote democracy. The U.S. force structure in Korea may evolve as the threat to the ROK and the pace of the region change. The level of U.S. military assistance to the ROK is not adversely affected nor is it anticipated to be adversely affected by ROK military strategy.

IMPACT OF ROK DEFENSE INDUSTRY PRACTICES ON
COMBINED FORCES' CAPABILITY TO FIGHT A WAR IN KOREA

Question: The ROK has a significant indigenous defense industrial capability to meet many, but not all, of its warfighting needs. The ROK lack certain technologies to produce critical equipment and must either procure it, build it on a co-production basis from others, or develop the technology through research and development efforts.

The ROK procure about \$3 billion annually offshore for military hardware improvements, 83 percent from the United States.

The fastest way to improve critical ground force capabilities is to remedy ground warfighting capability shortfalls and to improve on the ability of the ROK and U.S. forces to fight together is to procure military equipment from the United States.

The ROK, to satisfy domestic economic objectives, has resisted in some cases procuring off-the-shelf military hardware and has chosen to develop it internally. This practice delays fielding and contributes to interoperability with the U.S. forces.

In addition, for other than military reasons, it has procured military hardware from non-U.S. sources that are not compatible with the hardware the U.S. fields, creating interoperability problems. For example, the procurement of French Mistral surface-to-air missile systems that cannot distinguish between friendly and enemy aircraft, and the SINCGARS radio. Other examples can be provided, but this discussion would be classified.

Recognizing the ROK concern about building an indigenous capability to become military self-supporting in hardware development and production, what is the U.S. plan to encourage more decisions that lead to compatibility between the United States and the ROK regarding military hardware?

Major General Franks: Interoperability is a high priority of CFC and ROK JCS.

CFC has emphasized to the ROK Chairman the important of building interoperability into ROK research and development for future ROK weapon systems. The ROK Chairman agrees with the importance of interoperability in research and development. CFC will continue to stress this as an important warfighting military requirement. Recently the ROK JCS J5 (tasked with force improvement) opened a channel of communication and feedback with the USFK ACoFS J5 to discuss CFC military requirements and interoperability issues. Additionally, DCINC CFC now has a position on the ROK JCS general officer review board for force improvement planning. This position allows the DCINC to present CFC issues at the highest levels of ROK military improvement planning.

Question: Will the ROK continue to place a higher priority on its economic considerations at the expense of joint military capability?

Major General Franks: The need for interoperability is a combined military priority. The need to develop a military industrial base is a ROK government and political priority. Even when the ROK military stresses the importance of military systems interoperability, the objectives of the ROK government can proceed in an alternative direction. Third country procurement by the ROK does not constitute a significant portion of their force improvement. Procurement programs where the U.S. lost a sale, such as the MISTRAL, represent less than one percent of the entire 90's improvement budget. Obviously the significance of non-interoperability is far greater than lost sales revenues and CFC continues to emphasize capabilities' interoperability rather than systems' sales. CFC's message is clearly heard and supported by the ROK military. To say that the ROK places a higher priority on its economical considerations at the expense of joint military capability is an unfair and inaccurate statement for the ROK military.

BURDENSARING

Question: The United States spends approximately \$1 billion annually in incremental costs (above those costs normally associated with maintaining a force this size in the U.S. force structure) to maintain a forward deployed force for the defense of South Korea.

Over time, the ROK share for these costs has steadily increased, but only at a moderate rate.

Still, the latest agreement with the ROK has left the United States with absorbing 70 percent of the approximate \$1 billion in incremental costs.

Cost sharing agreements with other countries are much more favorable to the United States than with the ROK.

The ROK is not poor, with a vibrant economy, it is capable of paying these costs.

The most recent round of discussions with the ROK for the purpose of increasing the ROK share of the cost to maintain U.S. troops in South Korea for the purpose of assisting the ROK in the event of an attack by North Korea has not produced significant results.

Why does the United States continue to pay a disproportionate share of these costs?

Major General Franks: The United States military forward presence in the Asia-Pacific region is an essential element of regional security and America's global military posture. It is actually less expensive to station troops in Korea due to the ROK's burdensharing contributions. The ROK now provides approximately one-third of the operations and maintenance cost of maintaining U.S. forces in Korea and ranks near the top of all Allies in regards to cash and in-kind support. The ROK has increased its support from \$45 million in 1989 to \$300 million in 1995. The ROK also provides approximately \$1.3 billion in indirect support -- rent-free real estate, training facilities, tax exemptions and other expense off-sets to USFK. In addition, the Department of Defense and the Department of State (Ambassador-at-Large for Burdensharing) annually conduct extensive negotiations with the Republic of Korea aimed at expanding Korea's cost-sharing contributions.

Question: How long will the United States continue to pay for these costs?

Major General Franks: U.S. military forward presence in the Asia-Pacific region is an essential element of regional security and America's global military posture. Peace and stability in Northeast Asia are most important to the security and economic well being of the United States. A credible forward-deployed military presence provides for the peace and stability essential to the formation and expansion of health economic markets and democratic institutions, while permitting us to share in important regional security decisions. Moreover, our military presence helps to deter a war that could destroy the viability of the region as a major market for American products and services. These interests are especially critical to our future since the balance of economic power continues to rapidly shift toward Asia. Even if the threat from North Korea were to diminish we envision a continued robust U.S.-ROK security relationship to protect mutual security interests in the region.

Question: Doesn't this condition amount to an unnecessary U.S. taxpayer subsidy to the ROK?

Major General Franks: Maintaining a U.S. presence in the ROK is imperative to the peace and stability of the region and important to the security and economic well being of the United States. It is actually less expensive to station troops in Korea due to the ROK's burdensharing contributions. The ROK currently provides approximately one-third of the cost of maintaining U.S. forces in Korea (not including U.S. DOD employees and U.S. military salaries). When compared with other allied nations, the ROK ranks near the top in cash and in-kind contributions. In 1995 the ROK will contribute \$300 million in direct and \$1.3 billion in indirect support to USFK. For the size of its economy and defense burden the ROK provides significant support to USFK. We expect the ROK's costsharing contributions will continue to increase as its economy grows. The Department of Defense and the Department of State (Ambassador-at-Large for Burdensharing) continue negotiations with the ROK aimed at expanding Korea's costsharing contributions.

INTEGRATED PRIORITY LIST

Question: What are some of the items identified by your command on the "integrated priority list" and, of these, what do you view as the most critical?

Major General Hurd: There are 32 items identified on our Integrated Priority List (IPL) with over 180 associated programs. The most critical items on our IPL include: Prepositioning Ashore and Afloat, Joint/Combined Exercises, Strategic Lift, Theater Missile Defenses, Military Satellite Communications, Intelligence Support, CVBG/ARG replacements, Airborne Reconnaissance Programs, Precision Munitions, and Mine Countermeasures.

LIFT

Question: Last year, the committee provided \$50 million for a mobility enhancement package and has received a list of critical areas where this money is needed. In our hearings with the services and with the CINCs, one message come through loud and clear: Lift is the most pressing requirement. What are your views on specific items that are needed now to ensure that mobility is provided for your AOR?

Major General Hurd: Four critical programs recommended by the Mobility Requirements Study (MRS) and MRS Bottom-Up Review Update require continued Congressional support. First, the C-17 program, in consonance with the Non-Developmental Airlift Aircraft (NDAA) alternative, ensures timely movement of forces during the initial stages of a contingency and is the only complete capability replacement for the C-141's ever-diminishing fleet. Second, the LMSR, or Large, Medium Speed Roll-On, Roll-Off (Ro/Ro) acquisition program will meet all of Central Command's prepositioning and initial response needs. Third, acquiring and maintaining 36 Ro/Ro's in the Ready Reserve Fleet (RRF) is key to fulfilling surge lift requirements. Continued reduction of RRF operations and maintenance funding will bleed our sealift surge program back to pre-DESERT SHIELD levels. Finally, continued preservation of and investment in both our CONUS and overseas en route infrastructure ties together the three investments in force structure described above.

CATEGORIZING READINESS AND PRIORITIES

Question: The Department of Defense places readiness into three categories:

Near term: largely robust O&M spending

Medium term: more intangible such as quality of life and people programs.

Long term: modernization of equipment and maintaining the technological advantage enjoyed by U.S. forces.

What are your personal views on how this balance is being maintained and what are your concerns?

Major General Hurd: "Decreased defense spending, coupled with increased commitments, is beginning to have an impact on our near term readiness. Essentially, the services have been asked to do more with less. We have conducted a significant number of contingency operations over the last three years, and the effects are beginning to show on both our personnel and equipment. While the Chairman and Service Chiefs have placed additional emphasis on quality of life issues, high personnel tempo continues to take a toll on young service members and their families. The result is increased difficulty recruiting and retaining quality soldiers, sailors, airmen, and Marines. It also impacts on equipment availability and sustainability, as high operational tempo wears out our equipment faster than anticipated. The result is unforecasted expenditures for operations, maintenance, and procurement. While the balance in near, medium, and long term readiness is currently about right, in the long term, this trend, coupled with the downward spiral in defense funding, may adversely affect our ability to field quality forces and to maintain a technological advantage over potential adversaries."

CRITICAL FORCE ENHANCEMENTS

Question: There is and emerging consensus that critical force enhancements are essential in the following categories:

- strategic mobility including airlift, sealift and prepositioning;
 - advanced precision-guided munitions to increase the lethality and survivability of U.S. forces;
 - enhancements to surveillance and command and control, and communications capabilities;
 - improved readiness among selected reserve component forces, particularly the 15 brigades of the Army National Guard.
- Please provide your personal views on these priorities and what other types of enhancements are necessary for you to perform your taskings?

Major General Hurd:

There may be an "emerging" consensus now, but it has been known since the Bottom Up Review (BUR) came out that these enhancements are essential conditions for mission success, and that some operations may be risky even with them. We have discussed each of these enhancements during the ongoing NIMBLE DANCER series of wargames, and have judged most of the capabilities, if not particular systems, essential for success of the Two Nearly Simultaneous Major Regional Contingency Strategy (2 X MRC). The enhancements make up for the gap in capabilities left by shrinking the total force structure.

Strategic mobility, including airlift, sealift and prepositioning, is the key part of our execution equation for timely force closure. Prepositioning, combined with our other forward presence programs, is not only key to deterrence, but

also gives us that initial footprint of combat forces capable of blunting an enemy attack. Our analysis has consistently indicated a prepositioned heavy armor division is the core ground force required for success.

Advanced precision guided munitions (PGMs) are our "ordinance of choice," and will reduce friendly casualties by allowing us to more capably attrit the enemy prior to his engagement of our forces. However, PGMs are not a "silver bullet." We must have a balanced munitions inventory, including accurately delivered "dumb bombs."

Improved surveillance will give the NCA more time to make critical strategic deployment decisions during an emerging crisis, provide better "sensor to shooter" linkage, and give us "eyes on target" during the operation. We see airborne reconnaissance platforms, such as Unmanned Aerial Vehicles, Joint Surveillance Target Attack Radar System, Rivet Joint aircraft, and P-3 Reconnaissance enhancements as some of the components necessary for a sound airborne reconnaissance program. Compatibility of communications is also essential in our joint, combined, and coalition warfare environment, and a compatible theater deployable communications system is a high priority.

The 15 "Enhanced Brigades" of the Army National Guard will need 90 days of collective training prior to deployment. In the

2 X MRC scenario, with CENTCOM as the second contingency, we will need these brigades to ensure protection of key petroleum assets. We are looking forward to reviewing the Army's employment concepts and training plans for these brigades.

The combination of these force enhancements is essential. Additionally, to meet the goal of fighting two near simultaneous wars, we will also need quantum improvements in Theater Missile Defensive systems, increased CVBG and ARG/MEU presence, a Marine medium lift helicopter replacement, and mine counter-measure capabilities.

CRITICAL CAPABILITIES

Question: Please provide your views on the adequacy of the capability in the following areas:

- Chemical and biological weapons defense.
- Mine countermeasures.
- Command, control and communications.
- Precision munitions.

Major General Hurd:

We see chemical and biological weapon defense systems as adequate, given the known current threat. However, we need improved personal body armor, a stand-off detection capability, procurement of tactical and area decontamination equipment, and vaccine production to meet our stockage requirements.

The shortfall in mine countermeasure (MCM) capability may influence both logistical operations and employment of forces in the USCENTCOM AOR. During the Gulf War, and in any future conflict, the majority of equipment and supplies will arrive by sea. The potential mine threat to the sea lines of communications (SLOCs) and ports is very real, and could happen with little warning. Aviation MCMs can get to the AOR quickly, but cannot produce a sustained effort like surface MCMs. It is critical to deploy and maintain surface MCMs (at least 2 ships) in the USCENTCOM AOR to ensure the logistical flow. In addition, the lack of a shallow water MCMs may inhibit the manner in which we employ our Marine forces. We also need a breaching system for the M1 tank to counter landmine threats. The enemy's willingness

to use mines, both on land and at sea, is well known, and will influence how we do business.

We are moving in the right direction with command, control and communications, and the Global Command and Control System is the foundation for a total system. Our goal is a fused standardized system of seamless architecture, in which we can combine all the C3 capabilities in a secure digital network thus provide the NCA real time information, as well as, the warrior on the battlefield. Interoperability with our coalition partners is a goal.

We discussed how important PGMs are in both our interdiction scheme and the close-in battle. PGM weapons are key enablers that allow us to end the conflict quicker and on our terms, but they are not an end-all. We need a balanced munitions approach.

END GAME ON TASKINGS

Question: We are involved in some rather extensive peacekeeping and humanitarian efforts. For example, the Cuban problem at Guantanamo is going far longer than envisioned, the no-fly efforts in Bosnia and Iraq have been longer than expected. How do you view the need for establishing an end-game for these conflicts and are there ways to accelerate the reduced involvement of U.S. forces?

Major General Hurd: The need for the establishment of an "endstate" for an operation prior to its initiation is absolutely critical. Open ended commitments are resource drains with impacts that continue to have a negative effect on available funding, unit OPTEMPO, and quality of life for service members. An endstate should define force requirements, set rules of engagement, drive operational costs, and identify the impacts on force availability. In general, it gives military planners the opportunity to plan and execute operations in the safest and most expeditious manner. Military force is expensive to deploy and employ. By not defining the mission, we increase the chances of wasting our precious and expensive assets.

WAR GAMES AND JOINT EXERCISES

Question: We have heard that significant progress has been made in linking above-corps-level training simulations of the individual services through joint exercises. Please describe this process and also, describe your efforts and results in war games and joint exercises?

Major General Hurd: The individual service simulation models can be linked together utilizing the Aggregate Level Simulation Protocol (ALSP), which translates the various computer languages into one that can be understood by all the models. The cost of bringing these models together, in spite of the level of fidelity it can achieve, is very expensive both from the dollar cost and manpower requirements perspectives. The last time HQ USCENTCOM utilized the confederation of individual service models was during INTERNAL LOOK '90. At USCENTCOM, we have found that there are simulation models available, such as the Joint Theater Level Simulation (JTLS) model, which provide a sufficient level of fidelity, but do not have to be linked to other models. This type of model satisfies our needs at the operational and strategic levels of war, and provides a significant cost savings when compared to the cost of the previously mentioned confederation of service simulation models. Our next major exercise, INTERNAL LOOK 96, to be held in March, 1996, will utilize the JTLS model and will focus on the joint interoperability between HQ USCENTCOM and Component headquarters. USCENTCOM has no near-term plans to utilize the confederation of service models in any exercises."

JOINT PLANS AND EXECUTION

Question: The Joint Operation Planning and Execution System or JOPES is used to build operations plans and to manage deployment. It also is used to Build the Time Phased Force and Deployment Data Base (TPFDD). To what extent are these systems used? Are they reliable? And, to what extent are deviations required in actual deployments? What improvements would you recommend?

Major General Hurd: "JOPES is currently our only automated system that is networked to the entire joint community for the purpose of plan development, TPFDD building, and deployment management. As such, the system is not only heavily used and relied upon, but is required for joint planning and operations execution. Over the years, it has been fairly reliable, but the hardware is 1960's vintage, and is becoming more expensive to keep in operation. In addition, the age of the system is apparent in its lack of a graphics interface and extremely slow response time. Deviations of the TPFDD at execution are common, but are usually driven by operational decisions made at execution, not by faults in the JOPES. The Global Command and Control System (GCCS) will replace JOPES when fielding is complete later this year. The functions currently performed in JOPES will be replicated in GCCS in a user-friendly, graphics interfaced presentation that will be orders of magnitude faster than JOPES. If GCCS is interfaced with a real-time automated tracking system, we will be able to manage deployment of forces in a much more efficient fashion."

COMPONENT TASKINGS

Question: When Admiral Boorda testified before the committee, he stated that he has had to ask the CINCs for relief from some taskings due to shortfalls in the Navy. What taskings was he talking about? Have other components come to you asking for similar relief?

Major General Hurd: As the Navy continues to downsize, strategic goals requiring Naval forces continues to expand. The Navy is experiencing difficulty with Personnel Tempo (PERSTEMPO) and Operational Tempo (OPTEMPO) with regards to supporting forward presence needs of the CINCs. The most critical tasking shortfall requiring relief for the Navy is in the area of Carrier Battle Group (CVBG) and Amphibious Ready Group (ARG) support. Competing demands for these scarce assets, required to meet real world needs in each Area of Responsibility (Iran/Iraq, Korea, Bosnia, Haiti, Somalia, etc.), has created problems in scheduling. The Global Naval Force Presence Policy, which provides the scheduling framework for CVBGs/ARGs, is being reviewed by the Joint Chiefs of Staff and CINCs to determine if any relief can be provided.

The Air Force is also having difficulty meeting requirements. The following aircraft have been identified as shortfalls in meeting Joint Task Force Southwest Asia (JTF-SWA) requirements for the remainder of fiscal year 95 and portions of fiscal year 96: EF-111, F-4G, A-10/OA-10, F-16C/J, U-2. Additionally, one E-3 AWACS and one EC-135 have redeployed from JTF-SWA due to PERSTEMPO/OPTEMPO considerations.

DEFENSE SCIENCE BOARD TASK FORCE ON READINESS

Question: The Defense Science Board Task Force on Readiness made specific recommendations regarding the need for better measurement of joint readiness. What measures have been taken to improve joint readiness assessments, and how have these measures improved the accuracy of readiness assessments? Specifically, have any of the new measures lessened the degree to which the JCS must rely on commanders' subjective assessments, or improved the ability to predict future readiness status?

Major General Hurd: The Joint Staff has implemented the Joint Monthly Readiness Review (JMRR). The assessment areas identified by the JMRR and the applied evaluation metrics have focused USCINCENT's ability to concentrate on the command's readiness in relation to the unique conditions of the Central Region. JMRR measures still require subjective assessments and may not have lessened the degree JCS must rely on those subjective assessments. The structure provided by the JMRR has improved USCINCENT's capability to predict future readiness status as applied to missions inherent to the Central Region.

REPORTING READINESS

Question: The JCS recently implemented the Joint Readiness System for the CINCs to use in reporting readiness. Please describe:

(a) how the new system provides a more objective readiness assessment, and

(b) the specific criteria that has been provided to the CINCs for reporting in the eight areas of the Joint Monthly Readiness Review?

Major General Hurd: The Joint Monthly Readiness Review (JMRR) system is the Joint Staff system that provides CJCS information on unit readiness provided by the Services and joint readiness provided by CINCs. The JMRR system requires CINCs to provide monthly input in eight measurement areas which are: Strategic Mobility, Intelligence/Surveillance/Reconnaissance, Joint Headquarters Capability, Command/Control/Communications/Computers (C4), Logistics/Sustainment, Special Operations, Infrastructure, and Joint Personnel Readiness. How and what to report (Metrics) is up to each CINC, and can be subjective in nature, as long as it addresses the eight areas. The USCENTCOM metrics for each measurement area were approved by USCINCCENT, and each monthly input is reviewed and approved by USCINCCENT. This system provides USCINCCENT the opportunity to constantly assess the command's readiness to accomplish assigned missions with specific focus on the unique requirements and conditions in the Central Region. Additionally, it allows us to assess our readiness to accomplish missions we expect in the next year, as well as to assess our readiness to execute a Major Regional Conflict (MRC) in the Central Region under various scenarios stipulated by the Joint Staff. These scenarios include assessing our readiness to execute an MRC in Southwest Asia as either the first or second of two nearly simultaneous MRCs.

JOINT EXERCISE PROGRAM

Question: According to JCS officials, the Chairman's Joint Exercise Program includes exercises that are of marginal training value while other so-called joint exercises involve only a single Service. What actions are being taken to improve the joint training program?

Major General Hurd: The answer to this is necessarily in two parts. First, a clarification of the semantics used in "Exercise Program," and then a response concerning the "training program." As for the semantics problem, it is both subtle and significant.

For example, in USCENTCOM's AOR we do not expect to fight, or win, by ourselves. Training and assessing our military capability, therefore, has to encompass a reasonable amount of training and assessing the warfighting capabilities of our probable coalition partners. It also encompasses how well we are able to operate with them.

From this perspective, the "joint training program," or the Exercise Program, at USCENTCOM is online and proceeding according to our Exercise Campaign Plan, which is the second part of your question. We train and assess our battlestaff, our components, and our likely coalition partners in a progressive, planned program that steadily improves the warfighting capabilities of the theater. Our focus is on staff and interoperability training. Our goal is to move the capability in-theater from

individual services and nations fighting independently, to a cohesive, multi-national capability where all of the forces are comfortable with operating together both jointly and in combined operations. The exercises, therefore, are tailored to both the training and interoperability levels of the participants, now and with an eye to their future progression.

Some of the exercises admittedly provide more U.S. "joint" training than others, but, when viewed from a theater perspective, the exercise program is steadily improving not only the "joint" capability, but also the combined capability of the forces, both U.S. and coalition. There is an added value to these exercises because of the "access and presence" that we gain. Through them we are able to maintain a dialogue with the participants, which in turn helps to stabilize and strengthen the balance of power in the region. Finally, there are always individual training opportunities available to the participants during the course of each exercise, each of which can be used to improve individual or unit training levels.

JOINT OPERATIONS

Question: Recently, JCS made significant changes to its strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command. Other regional CINCs have voiced concerns about the command's ability to train forces for their use. What actions are being taken to address these concerns?

Major General Hurd: The concern about the U.S. Atlantic Command's (USACOM) role in training forces is focused more on what their role is, rather than their ability to do it. It now appears that USACOM will train their assigned forces in the baseline common tasks that all forces participating in joint operations must accomplish. This will leave the task of "fine tuning" the forces' training to the regional CINCs. We, like all of the other regional CINCs, are currently involved in a major process to help USACOM identify these "common tasks." These tasks should be identified and agreed upon by Aug '95.

At USCENTCOM, we are in a unique position to take advantage of USACOM's effort. We, unlike the other regional CINCs, essentially own no forces, have no training personnel, nor operate a simulation/wargaming center. This forces us to use outside assets to achieve the level of joint training that we may require. We are doing this through a combination of limited

internal and external sources, including the Joint Warfighting Center (JWFC) and USACOM.

With USACOM, we are already involved in several of their joint training initiatives. Their UNIFIED ENDEAVOR exercise series is evolving as their primary vehicle for training forces in joint task force operations. UNIFIED ENDEAVOR '95 was the first in this series, and focused around a Southwest Asia scenario for which we provided subject matter experts. We see this exercise effort, and the focused JTF training syllabus that is evolving from it, as being the first step in training our future Joint Task Forces.

Additionally, we are exploring how we will be able to continue to develop and even improve our close cooperation with USACOM to accomplish joint training. Their new simulation center is of special interest to us, and we will be exploring how we will be able to gain from this. The manning of their J7 directorate is also of interest, since it is a potential manpower pool that we may be able to tap for training, exercise control, and evaluations in the future. USACOM, in their training role, provides a valuable service to USCENTCOM by assisting in the training of our battlestaff and potential Joint Task Force staffs. The close relationship with USACOM has had a direct and positive effect on our ability to fight and win.

READINESS

Question: Are you adequately resourced to accomplish the needed training to meet the range of mission requirements?

Major General Hurd: Yes, we are presently resourced to accomplish the training needed to meet our mission requirements. We have the ability to train and exercise our staff and are improving our component training as well. The services continue to provide USCENTCOM well trained forces to meet our contingency and OPLAN requirements.

Our exercise program is key to accomplishing our mission requirements. Through careful management of our exercise program, we are able to maximize training benefits. Each exercise provides us the opportunity to train to standard on the tasks on our Mission Essential Task List. Even though joint exercises differ in their magnitude, all contribute to training some portion of our force in critical warfighting skills. The result is a well trained force which is fully prepared to accomplish assigned missions.

Question: What are the current restrictions on training range access for both ground and air training? What training is not being accomplished and what is the readiness impact? How are training deficiencies being addressed?

Major General Hurd: Overall, USCENTCOM has excellent access to ranges and training facilities throughout the AOR. Access to these ranges is obviously controlled by the owning nations, and so we are at their mercy for access. In practice, however, our exercise program in the theater has been so robust and positive that we have been able to maintain access in all of the key countries. Access to ranges has had little, if any, impact on our training or readiness.

We have access to air ranges in Bahrain, Egypt, Kenya, Jordan, Kuwait, Oman, Pakistan, Qatar, Saudi Arabia, and the United Arab Emirates. Capabilities that we have exercised on these ranges run from Global Power live bombs, to simple iron bombs (live and inert), and up to Precision Guided Munitions.

Similarly, we have access to ground ranges and facilities in most of the countries. These facilities include open-air ground-combat live-fire ranges (e.g., squad live fire, battalion combined arms live fire) and special purpose facilities (e.g., instrumented shooting houses, combat towns, and specially-built apartment buildings for counter-terrorist training).

We have no major training range deficiencies in our area. There are several training area improvements that we execute annually using Engineer Related Construction funds and other programs. These initiatives, however, usually address improving an area or site for future training exercises, not a specific range.

USCENTCOM receives trained and ready forces from the force providers and availability of training ranges in our AOR allows these deployed forces to maintain a high degree of readiness.

IMPACT OF CONTINGENCY OPERATIONS

Question: Do you have any concerns about the Services' ability to access sufficient numbers of reserve component volunteers to meet the requirements of contingency operations?

Major General Hurd: Two factors affect the availability of reserve component (RC) volunteers and our access to them for contingency operations -- training and contingency funds. Our past experience indicates the pool of available volunteers has been sufficient to meet most operational needs. However, as we continue to draw the active force down, the need for RC volunteers early in a contingency operation increases. But, as the demand increases, the number of RC volunteers trained for immediate transition to active duty has been declining due to concomitant decreases in the RC. The second factor is the lack of emergency funds, during the planning phase of a contingency operation, to call up volunteers to fill surge manning requirements. The initial uncertainty regarding supplemental emergency reimbursement for a contingency operation limits our flexibility to use volunteers as augmentation requirements begin to emerge.

Question: What has been the impact of contingency operations on your readiness for major regional conflicts?

Major General Hurd: As you know, USCENTCOM has been involved in a number of contingency operations over the last two years. Conducting these operations consumes already limited resources, causes the curtailment of scheduled training and exercises, and increases Personnel Tempo (PERSTEMPO). However, depending on the type of operation, contingency operations can contribute to our warfighting ability by allowing us to actually validate command and control concepts, strategic movements, and work with coalition partners (i.e. Operations VIGILANT WARRIOR and UNITED SHIELD).

The detrimental impacts of contingency operations are mainly felt in the areas of PERSTEMPO and funding. As we downsized, we have asked fewer people to do more, and to do more with less money. Eventually this could impact on our mid and long term readiness. We must ensure that we don't pay for the present by mortgaging the future. If we are called to conduct the number of contingency operations in the future as we have in the past, there needs to be provisions for funding these operations without using previously programmed funds. We will also have to continue to address the myriad of quality of life issues that surface with increases in PERSTEMPO.

Question: What have you identified as the units or capabilities most stressed in meeting operational requirements? What has been the impact on readiness of these units or capabilities to respond to regional conflicts? Are you satisfied that sufficient corrective action is being taken to relieve this situation?

Major General Hurd: USCENTCOM has a diverse area of responsibility (AOR) with 19 very different, and challenging, countries. They range from the oil rich countries of the Arabian Gulf to the more economically challenged countries of east Africa. Responding to contingencies in each of these areas can require a different type of force. In the gulf region our early response forces are primarily naval and air. However, ground forces are also essential, as evidenced in DESERT STORM and VIGILANT WARRIOR. Recent operations in Somalia primarily used ground and naval forces, but also required tactical air support. As these operations demonstrate, our strength is derived from "operational agility," or our ability to integrate various and unique service capabilities to respond to a specific contingency. Accordingly, I would hesitate to say one type of unit is more important than another -- they are all important, and critical to our ability to respond in the USCENTCOM AOR.

Since USCENTCOM does not have permanently assigned forces, I can not assess the impact on readiness for specific units or capabilities. I will say, however, that the number of contingency operations we have conducted, coupled with recent downsizing has significantly increased both personnel tempo (PERSTEMPO) and operational tempo (OPTEMPO). This impact is most readily apparent in "low-density" units such as: Patriot missile units, Airborne Warning and Control System (AWACS) squadrons, Carrier Battle Groups, Amphibious Ready Groups, and Civil Affairs and Psychological Operations units. This obviously affects readiness, but it is difficult to determine the extent.

Question: Do you expect the high pace of operations to continue? If so, what do you see that needs to be done to ensure force readiness to meet your short-term and long-term requirements?

Major General Hurd: It is difficult to predict the future, but I believe recent history would suggest we can expect the high pace of operations to continue. USCENTCOM's area of responsibility (AOR) has a diverse mix of countries many of whom have significant economic, military, and political challenges. Due to these difficulties, our AOR will remain uncertain and potentially volatile.

My concern, relative to readiness in the short-term, is the area of training and exercises. Training and joint and combined exercises must be fully funded.

In the long-term, we must ensure that we continue to preposition assets in the region to decrease our contingency response times. We must also maintain a technological advantage. In our AOR, we are vitally concerned with additional strategic lift, Command/Control/Communications/Computers and Intelligence (C4I) systems, and Theater Missile Defense (TMD). We must not allow our current high pace of operations to adversely impact acquisition of those systems.

UNCLASSIFIED

TRAINING

Question: Recently, JCS made significant changes to the strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command.

(a) What has been the experience with this concept?

(b) Does it impede your ability to conduct their training programs?

Major General Hurd: USCENTCOM does not have assigned forces. We are apportioned, or request, forces for contingencies. We rely on those forces to arrive in our area of responsibility (AOR), trained, equipped, and ready to conduct their assigned missions.

We maintain close coordination with USACOM and other force providers to ensure unit training objectives meet our requirements for deployed forces. We observe training proficiency during our own USCENTCOM sponsored exercises, and we also work through our components to ensure they understand USCENTCOM mission requirements. To date, USCENTCOM has received well-trained and ready forces for all contingencies, and we expect this to continue.

Question: What are your views on adaptive joint force packaging? Do these tailored forces provide you with sufficient capabilities to conduct anticipated military operations?

Major General Hurd: Adaptive force packaging is what we have always done -- except we called it "task organizing" and we allowed the responsible commander to request the right mix of forces he needed to do the job. We do "adaptive" force packaging every time we request forces for contingency response. Recently, to support Operation UNITED SHIELD, we combined parts of two Marine Expeditionary Units, placed an Army psychological operations detachment on board a naval ship, established a forward support base with Air Force assets, and formed a special operations task force. There is no special formula for determining pre-established packages, but we have sufficient experience to request the right type of forces to meet mission requirements. I would hate to see us get away from a time tested and proven method of task organizing for combat by structuring "adaptive packages," which may not meet the operational requirements of a particular contingency. The regional CINCs can determine the right type and mix of forces for their respective AORs, and we should continue to let them make those decisions.

ARMY NATIONAL GUARD ENHANCED READINESS BRIGADES

Question: Although 15 enhanced brigades in the Army National Guard are a critical element of the Clinton military strategy, the Army continues to experience major problems in adjusting its training strategy to meet this need.

Are these brigades fully integrated into your contingency scenario? Are you comfortable that the readiness levels of these brigades are adequate to be fully integrated into your contingency plans? If not, what improvements are needed?

Major General Hurd: The brigades are included in our plans late in the deployment flow. Depending on the situation, the counterattack could be in it's final stages as the first brigade arrives in theater. Possible missions for these brigades include line of communications security, EPW control, area security, and back-filling the active units as we transition from war to peace. The Army is still working on the training plan that will get these units to combat readiness upon mobilization.

PREPOSITIONING

Question: What is the state of prepositioning in your AOR? How would you describe the cooperation that we are getting from the Gulf States?

Major General Hurd: We still maintain our first access agreement with Oman which allows the U.S. ~~to~~ material in their country. Besides the access agreement with Oman, we currently have Defense Cooperation Agreements (DCAs) with Kuwait, ~~and~~ Bahrain and the United Arab Emirates. Kuwait has clearly been very cooperative since the end of Operation DESERT STORM, and is now the site of our first heavy brigade set prepositioned ashore. Bahrain

~~also~~

supports a forward Naval Forces-Central Command (NAVCENT) site.

~~SECRET~~

The U.S. enjoys significantly improved cooperation since Operation DESERT STORM. The host nation agreements are structured so that U.S. sovereign rights to the equipment are recognized, and are structured so they enable us to substantially increase the amount of equipment we have in the region as necessary.

MOBILIZATION AUGMENTATION

Question: The committee has learned that CENTCOM may be 400 people short of the staff that it requires for augmentation in wartime.

Is CENTCOM comfortable with the wartime augmentation staffing levels, and what improvements, if any, are needed?

Major General Hurd: I am comfortable that the Services will provide HQ USCENTCOM with adequate staffing for wartime augmentation. However, our experience during Operations DESERT SHIELD/DESERT STORM and VIGILANT WARRIOR demonstrated that our documented wartime augmentation requirements are understated by approximately 50 percent. After a thorough review of our wartime needs, we will process requests to the Joint Staff to update our manpower documents to reflect current requirements.

INTEGRATED PRIORITY LIST

QUESTION: What are some of the items identified by your command on the "integrated priority list" and, of these, what do you view as the most critical?

Rear Admiral Lair:

Strategic Lift, including air and sealift, is required to provide United States European Command (USEUCOM) with the full agility to respond as needed to meet national security needs. The C-17 is critical for USEUCOM airlift requirements. It is the only aircraft in the foreseeable future that has the capability to handle over-sized and out-sized cargo, as well as the capability to land on unprepared runways.

Communication: Theater Intel, automatic data processing/
Communication, MILSATCOM (Defense Satellite Communication System III, DSCS III/UHF Follow-on).

Theater Missile Defense: USEUCOM envisions an evolutionary system consisting of four pillars: active defense, passive defense, attack operations, and a command & control architecture.

LIFT

QUESTION: Last year, the committee provided \$50 million for a mobility enhancement package and has received a list of critical areas where this money is needed. In our hearings with the services and with the CINCs, one message comes through loud and clear: Lift is the most pressing requirement. What are your views on specific items that are needed now to ensure that mobility is provided for your AOR?

Rear Admiral Lair: Strategic mobility enhancement was a key assumption of the Bottom Up Review. During modeling for wargame NIMBLE DANCER I there was concern that strategic lift would be insufficient to extract forces from current operations while attempting to move forces to two nearly-simultaneous major conflicts. The strategic lift enhancements planned by fiscal year 2005 will greatly reduce the risks associated with meeting requirements and improving warfighting capabilities. Without the enhancements, the model demonstrated that forces were able to win in both conflicts, but risks and casualties were higher, and conflicts were concluded only with extending warfighting timelines.

Airlift is improving, and with your continued support, will meet our requirements. The first C-17 squadron declared Initial Operational Capability (IOC) in January and 14 aircraft have been delivered. DOD is committed to purchasing at least 40 C-17s, but the decision on future purchases has been deferred until November 1995. Airlift assets required to meet the two near-simultaneous conflicts are currently programmed to include 99 C-17s, 8 C-141s, and 104 C-5s in Fiscal Year 2005. The C-17 is an essential element of strategic lift for U.S. European Command with its oversize cargo capabilities in combination with the C-5 payload. In many operations, the initial materiel flow consists of up to 75% oversized cargo. This strategic airlift capability is a critical component of USEUCOM's continued operational agility, with the flexibility to respond to a wide range of contingencies--a flexibility that translates directly into a six-fold increase in available runways in this command's area of responsibility. DOD is currently studying the precise number requirement for C-17s and whether some commercial-based assets may be substituted.

CATEGORIZING READINESS AND PRIORITIES

QUESTION: The Department of Defense places readiness into three categories:

Near term: largely robust O&M spending.

Medium term: more intangible such as quality of life and people programs.

Long term: modernization of equipment and maintaining the technological advantage enjoyed by U.S. forces.

What are your personal views on how this balance is being maintained and what are your concerns?

Rear Admiral Lair: I believe short-, mid- and long-term requirements must be balanced. If we must give up something in the short-term to pay for the long-term, we must weigh that against requirements. We have identified some programs that are critical to USEUCOM's future ability to promote America's national security.

Given the current fiscal environment, I believe we have done a good job balancing short-, mid- and long-term requirements. We have given up some programs in the long-term to pay for short-term readiness. However, we have preserved the programs I believe are absolutely essential to future capability.

Rather than "sponsor" specific procurement programs, CINCEUR makes requirements known to the Services, Joint Staff, and the Joint Requirements Oversight Council based on capability shortfalls and their significance to EUCOM's area of responsibility. Strategic airlift and sealift are vital to execute the many ongoing operations in this theater, as well as supporting operations in USCENTCOM. The C-17, Prepositioned Material, Large Medium Speed Roll-on Roll-off Ships, Non-Developmental Alternative Aircraft, Army War Reserves, and Maritime Prepositioned Ships are essential to meet mobility requirements. The increased proliferation of Ballistic Missile technology and Weapons of Mass Destruction (WMD) highlight our need for increased Missile Detection and active defense capabilities. Patriot PAC-3, Theater High Altitude Air Defense (THAAD) with Ground Based Radar and Battle Management C3, Corps SAM/Medium Extended Air Defense System (MEADS) and Aegis Lower and Upper Tier systems will provide a mobile and robust defense against theater ballistic and cruise missiles. Future developments in Boost Phase Intercept and C4I (Command, Control, Communication, Computers and Information) such as Space Based Infra-Red and Cooperative Engagement Concept support layered defenses and are required for future WMD threats.

CRITICAL FORCE ENHANCEMENTS

QUESTION: There is an emerging consensus that critical force enhancements are essential in the following categories:

- strategic mobility including airlift, sealift and prepositioning;
- advanced precision-guided munitions to increase the lethality and survivability of U.S. forces;
- enhancements to surveillance and command and control, and communications capabilities;
- improved readiness among selected reserve component forces, particularly the 15 brigades of the Army National Guard.

Please provide your personal views on these priorities and what other types of enhancements are necessary for you to perform your taskings.

Rear Admiral Lair: I believe the current force structure with the Bottom Up Review enhancements allows the U.S. to maintain the capability to fight and win two near-simultaneous Major Regional Conflicts (MRCs). The key assumptions in the Bottom Up Review to successfully execute two near-simultaneous MRCs are:

- Forces extract from other operations and deploy to regional conflicts.
- Certain specialized units or unique capabilities shift from one conflict to the other, as required.

- Sufficient strategic lift assets, prepositioned equipment, and support forces are available.

- A series of enhancements, such as improvements to strategic mobility and U.S. firepower, are critical to implementing the two-conflict strategy and should be available by the year 2000.

NIMBLE DANCER, a series of wargame seminars, is based on a simulation model that examines combat capability in a macro sense by providing visibility of specific systems. During NIMBLE DANCER I, the Bottom Up Review force structure and capabilities were used; during NIMBLE DANCER II, the Bottom Up Review plus enhancements for Fiscal Year 2001-2005 were employed. In the latter exercise, the model included the following force enhancements:

- Strategic Mobility: C-17s, Large Medium Speed Roll-on/Roll-offs (LMSRs), prepositioning (PREPO) (Kuwait)
- Strike Capabilities on Navy Carriers and a surge in sorties
- Lethality of Army firepower: Apache Longbow, Army Tactical Missile System (ATACMs), Brilliant Anti-Armor Submunition

- Long range bomber delivery of conventional smart munitions: Sensor Fused Munitions (SFM)
- Reserve Component Forces: Army Enhanced Brigades
- Allied military capabilities: F-16s in Korea, M1A2 to Kuwait, Patriot to Kuwait/Saudi Arabia

Enhancements were a basic assumption in the Bottom Up Review and the NIMBLE DANCER wargame modeling. It was no surprise that in NIMBLE DANCER II emerging results, the enhancements improved our warfighting capabilities. Without enhancements the model demonstrated that forces were able to win in both conflicts, but risks and casualties were higher and conflicts were concluded only with extending timelines.

If one or all of these assumptions prove to be incorrect, then the risk associated with execution of two near-simultaneous conflicts will increase. For instance, if we are unwilling or unable, for either military or political reasons, to extract forces from on-going operations, then risk associated with the second MRC may increase proportionally.

Like all models, NIMBLE DANCERS' limitation was that it provided a basis for further discussion of issues pertinent to warfighting -- not answers or solutions to warfighting problems or deficiencies.

Finally, measures are being taken to ensure Reserve Components can fulfill their requirements to warfighting CINCs. Most Enhanced-Brigades (E-Bdes) can currently achieve C1 within 90 days of mobilization. FORSCOM and Rand Corporation development of mobilization training models will result in all E-Bdes being deployable within 90 days of call-up. The 90 day ceiling was based on the requirements of heavy E-Bdes; the light E-Bdes can be ready sooner.

Recent modeling for Army General Headquarters Exercises (GHQ) has confirmed the immediate need for E-Bdes as reinforcing, sustainment and reconstitution forces of the CONUS contingency force, and backfill of deployed forward presence forces or forces engaged in Peace Support Operations. An active component force of ten divisions must be augmented to win a two MRC scenario

CRITICAL CAPABILITIES

QUESTION: Please provide your views on the adequacy of the capability in the following areas:

Chemical and biological weapons defense

Mine countermeasures

Command, control and communications

Precision munitions

Rear Admiral Lair: **Chemical and Biological Weapons Defense.** Numerous countries--many of them hostile to the U.S., our allies and friends--now possess or are seeking to develop the capability to employ nuclear, biological and/or chemical weapons - Weapons of Mass Destruction (WMD). Chemical and biological munitions are relatively easy to produce and are within the reach of practically all industrialized countries. Additionally, these munitions can be delivered by a wide variety of delivery systems from the suitcase to the ballistic missile. Today a number of countries, in or near the USEUCOM Area of Responsibility, already have a ballistic missile capability - with more countries trying to develop it. Together these two capabilities, delivery system and munitions, represent a significant threat to U.S. interests. Interests

which not only include the protection of our own forces, but the forces and population centers of our allies.

Yet today, the U.S. and its allies have a minimal capability to detect, protect, defeat, or provide treatment against chemical or biological agents. This affects our ability to conduct operations in a chemical or biological environment. It also increases the threat to U.S. forces in the field and severely degrades our ability to win. Consequently, we need to increase our capability to detect and identify Nuclear-Biological-Chemical (NBC) agents, protect individuals and collective equipment, and provide effective treatment for individuals exposed to biological or chemical agents. Biological and chemical detection, protection and treatment should be a high priority in counterproliferation funding.

In the area of active defense, we have identified a requirement to protect U.S. and allied forces and population centers by intercepting and destroying agent warheads delivered by ballistic and cruise missiles. To this end, as a priority within the command, we are working to improve our Theater Missile Defense (TMD) capability. As the missile threat continues to proliferate; current TMD systems will not be adequate to deal with the future Theater Ballistic Missile (TBM) threat.

To achieve this future capability, USEUCOM requires improved point and area TMD capabilities like the PAC-3 and THAAD (Theater High Altitude Air Defense); and improved surveillance and reconnaissance capabilities like the Space Based Infrared System (SBIRS); and fully interoperable and combined Ballistic Missile Command, Control, Communications, Computer and Intelligence (BMC4I) systems. BMC4I is especially critical since it is the glue that binds separate ballistic missile detection, warning, cueing, defense, and attack assets into a single system.

To provide a credible counterforce capability, the U.S. needs to have the capability to identify and destroy, when necessary, potential hostile WMD sites and their supporting infrastructure. Today, the U.S. has a limited, capability to characterize, destroy, or disrupt WMD assets that are located in tunnels or that are buried. Complicating the problem of attacking a specific hard target is the associated problem of predicting and assessing collateral effects.

To help solve this problem, USEUCOM has volunteered to serve as the warfighting sponsor for the Counterproliferation Advanced Concept Technology Demonstration (CP ACTD). The ACTD process is a mechanism that provides a rapid transition of available or emerging technologies

into an operational capability. This particular ACTD planned operational capabilities will focus on those aspects that affect the attack of a hardened WMD facility.

Although the task is large, it is not insurmountable. These enhancements need not be pursued solely through a U.S. unilateral effort. International cooperation in TMD has far-reaching potential in this theater. We should continue to support co-production, co-development or cooperative programs like the multi-national Medium Extended Air Defense System (MEADS-formerly Corps SAM). We should also continue to examine new ways to use existing and near term technology to enhance existing capabilities.

Mine Countermeasures. Mines are a weapon of choice for many of our potential adversaries. Mines represent a relatively low cost investment that can produce significant effects. As was demonstrated during the Iraqi-Iranian War, mines can be easily and anonymously deployed along important sea lanes to deter commercial traffic. On land, the use of mines has increased and it often takes years to complete a demining operation - the situation in Kuwait provides a good example. Consequently, mines can have a significant impact on both U.S. interests

and, during times of war, will affect the ability of the U.S. to maneuver forces.

Although our land mine countermeasures are generally adequate, ground mines can degrade effectiveness and would delay U.S. forces during the execution of sustained combat operations. In respect to maritime/amphibious operations, the U.S. has a limited capability to detect and clear mines. Within NATO, this U.S. capability shortfall is not critical - other allies provide the capability. However, outside of the NATO framework, it becomes a problem. Efforts to achieve this capability are underway. Currently, the services are using an Advanced Concept Technology Demonstration for Joint Counter Mine Operations as the vehicle to resolve this problem.

Precision Munitions. New technologies have enabled the U.S. to produce an inventory of precision guided munitions. Unfortunately, this inventory has limitations. The Gulf War demonstrated our capability to accurately hit and destroy above-ground targets at extended ranges - it also revealed problems when attacking hardened targets. This requirement needs to be addressed. As an example, today we face the continuing proliferation of Weapons of Mass Destruction (WMD). Concurrent with this proliferation there has been an increased tendency by potential adversaries to place their production facilities in tunnels or bury them deep underground. Obviously, the intent of this effort is to defeat our ability to detect and attack them. This tendency to harden facilities also exists in the areas of command and control and logistics facilities. Consequently, we require precision munitions that can penetrate and defeat underground facilities. USEUCOM is working closely with the other unified commands and the Defense Nuclear Agency (DNA) to resolve this dilemma.

As the warfighting sponsor for the Counterproliferation Advanced Concept Technology Demonstration (CP ACTD), we are using the ACTD process as a mechanism for a near-term delivery of an improved operational capability to attack.

END GAME ON TASKINGS

QUESTION: We are involved in some rather extensive peacekeeping and humanitarian efforts. For example, the Cuban problem at Guantanamo is going far longer than envisioned, the no-fly efforts in Bosnia and Iraq have been longer than expected. How do you view the need for establishing an end-game for these conflicts and are there ways to accelerate the reduced involvement of U.S. forces?

Rear Admiral Lair: Forward deployed U.S. forces in Europe continue to be instruments of U.S. policy and national strategy. Commitment of military units to peacekeeping and humanitarian efforts represent a substantial diversion of the forward deployed force to Operations Other Than War (OOTW). These commitments should continue only as long as they satisfy a legitimate national security objective. There is a hidden danger, however. Without a clearly defined endgame, or endstate these commitments assume a life of their own and continue to consume resources and increase PERSTEMPO. In the future, defining the desired endstate before forces are committed will help eliminate open-ended commitments.

Reducing the involvement of U.S. forces can be accelerated by replacing certain categories of military-provided support with contracted capability, and by encouraging increased involvement from our Allies. As the only superpower remaining after the end of the Cold War, there are certain U.S. capabilities, such as logistics and command and control, that are not found elsewhere and are not easily reduced or eliminated once committed. Our long-term commitment to these unique capabilities emphasizes the importance of defining the endgame or endstate before we enter into Peace Support Operations.

WAR GAMES AND JOINT EXERCISES

QUESTION: We have heard that significant progress has been made in linking above-corps-level training simulations of the individual services through joint exercises. Please describe this process and also, describe your efforts and results in war games and joint exercises.

Rear Admiral Lair: USEUCOM has wargamed the two MRC scenario in coordination with other CINCs during the *Global Games* at the Naval War College in Jul 94 and at the NIMBLE DANCER series of games. However, like all wargaming models, their limitation is that they only provide a basis for further discussion of issues pertinent to warfighting - not answers or solutions to warfighting problems or deficiencies.

The joint training conducted in USEUCOM is requirements-based, and not event-driven. The Service Component Commanders in USEUCOM fulfill their training responsibility and provide me with well trained forces. We then employ these forces in joint and multinational training exercises such as last Fall's highly successful "Atlantic Resolve 94." This and other exercises scheduled for fiscal year 1995 help maintain the high state of readiness in this command.

Scheduled exercises allow us to train our combat forces to be able to fight to win when called upon to defend America's interests in this

theater. EUCOM's Joint Training Plan (JTP) contains 56 CJCS supported joint training exercises for FY 95. These exercises are broken down into four categories:

1. NATO exercises.
2. Joint Task Force training exercises.
3. Bilateral exercises with NATO countries and other allies.
4. Partnership for Peace (PfP) and "in the spirit of Partnership for Peace" exercises.

The 56 exercises in the JTP are:

- 15 NATO exercises.
- 7 Joint Task Force training exercises.
- 31 bilateral exercises.
- 3 Partnership for Peace or "in the spirit of Partnership for Peace" exercises.

An additional 21 PfP and "in the spirit of PfP" exercises are in various stages of planning for fiscal year 1995.

USEUCOM plans to reduce the scope of one of our bilateral exercises (FLINTLOCK, PHASE II) during fiscal year 1995. We have canceled one Joint Task Force training exercise (SHADOW CANYON 95) in fiscal year 1995 because of a reorganization of our Joint Task Force training program. A total of 76 exercises are envisioned for execution in fiscal year 1995.

I see proof of successful training daily. USEUCOM forces help enforce UN Security Council Resolutions in the Adriatic; in the skies over Bosnia, they conduct airland and airdrop flights to feed the hungry in Bosnia-Herzegovina; and they protect the people of Northern Iraq from the brutality of Saddam Hussein.

Another example of USEUCOM forces' successful training was OPERATION SUPPORT HOPE. When tragedy struck last summer in Rwanda, USEUCOM forces deployed 3,600 miles to Central Africa. This joint force stopped the dying of thousands of Rwandans. Within one week, the death toll fell from 6,000 a day to 500, and in a month's time was less than 200. SUPPORT HOPE proved that well-trained and supplied military forces can significantly contribute to emergency humanitarian relief operations.

In USEUCOM, we work with each of our Component Commands to schedule joint exercises six years into the future. This long-range planning is critical to forecast resource requirements and to de-conflict training areas and unit schedules. These scheduled exercises allow commanders to develop and hone the military skills necessary to successfully accomplish our mission.

JOINT PLANS AND EXECUTION

QUESTION: The Joint Operation Planning and Execution System, JOPES, is used to build operations plans and to manage deployment. It also is used to build the Time Phased Force and Deployment Data Base (TPFDD).

To what extent are these systems used? Are they reliable? And, to what extent are deviations required in actual deployments? What improvements would you recommend?

Rear Admiral Lair: JOPES automatic data processing and procedures are crucial to both the deliberate planning cycle and crisis action planning and deployment execution. JOPES automatic data processing and procedures are used extensively by USEUCOM and component planners. However, the existing automatic data processing is 1970's technology. It is antiquated and requires extensive training and procedural workarounds to be used for crisis execution.

The existing JOPES TPFDD development and deployment execution procedures were developed primarily to address inadequacies in the JOPES automatic data processing. Each supported commander has different procedures in place to support crisis action planning and execution in his theater of operations. This has sometimes led to confusion and often results in deployment delays during the first 72 hours of crisis execution. The Global Command and Control System (GCCS) presents us with an opportunity to develop sound "joint" procedures based upon a new, more efficient technology. We expect GCCS to provide an enormous improvement to the JOPES automatic data processing functionality available. The use of Commercial and Government Off The Shelf (COTS and GOTS) software and selection of best-of-breed applications by experienced users will eventually lead to a much more efficient and user friendly system than currently exists today in JOPES. Headquarters, USEUCOM and its components are currently beginning to field GCCS and are projected to have JOPES capability via GCCS in July 1995.

COMPONENT TASKING

QUESTION: When Admiral Boorda testified before the committee, he stated that he has had to ask the CINCs for relief from some taskings due to shortfalls in the Navy. What taskings was he talking about? Have other components come to you asking for similar relief?

Rear Admiral Lair: I believe ADM Boorda, in his discussion before the House Readiness Subcommittee, was talking about reductions in number of days that an Aircraft Carrier Battle Group (CVBG) and/or Amphibious Readiness Group (ARG) are available for overseas deployments.

Changes in naval force structure over the last few years have resulted in fewer ships, planes, and sailors to meet the overseas requirements as detailed in the Global Naval Forward Presence Policy. This has resulted in gaps of coverage by forward deployed naval assets.

Aircraft Carrier Battle Group Presence:

Current Global Naval Forward Presence Policy (based on available forces and the requirements of other Unified Command for these same forces) only allows a scheduled presence of _____ in a year of coverage for the USEUCOM theater. The following situations provide some examples of complications arising from reduced CVBG presence.

In fall of 1994 there was a desire to operate a CVBG in the Adriatic due to increased tensions in the Balkans as well as in the Persian Gulf to respond to threatening moves by Iraq. The result required a choice between which crises (and theater) had CVBG presence. In this particular case the CVBG was sent to the Persian Gulf. This resulted in a lack of CVBG presence in the Adriatic during a critical time.

In February 1995 we were unable to provide a CVBG for the North Atlantic NATO exercise STRONG RESOLVE because the only East Coast U.S. deployed CVBG was required in the Adriatic Sea to provide critical coverage in the Balkans. The long-standing plan to use a carrier in this NATO exercise had to be modified.

Submarine Mediterranean Sea Presence: The USEUCOM requirement for U.S. submarines in the Mediterranean Sea is attack-type submarines (SSN's) all year.

For example, each time a CVBG leaves the USEUCOM AOR for employment in the USCENCOM AOR, a USEUCOM SSN transits with it and the USEUCOM SSN presence drops to Additionally,

Force reductions for USEUCOM's other components have also resulted in changes in supporting USEUCOM requirements including increased use of state side forces, such as Guard and Reserve forces.

U.S. Air Forces Europe: In November 1994, the

over the former Yugoslavia resulted in shifting the only EF-111's in theater from Operation Provide Comfort in Turkey to Operation Deny Flight because no other EF-111's were available from continental U.S. (CONUS).

DELETED

U.S. Army Europe: Funding concerns have resulted in a review of UH-60 helicopter support to Operation Provide Comfort in Turkey, Task Force Able Sentry in Macedonia and the Beirut Air Bridge service (provides logistic support for American Embassy in Lebanon) with an eye towards limiting flight-hours support to preclude decrementing training hours for non-deployed helicopters in Europe.

DEFENSE SCIENCE BOARD TASK FORCE ON READINESS

QUESTION: The Defense Science Board Task Force on Readiness made specific recommendations regarding the need for better measurement of joint readiness. What measures have been taken to improve joint readiness assessments, and how have these measures improved the accuracy of readiness assessments? Specifically, have any of the new measures lessened the degree to which the JCS must rely on commanders' subjective assessments, or improved the ability to predict future readiness status?

Rear Admiral Lair: Many improvements have been made to the readiness system since the Defense Science Board released its report. First, the U.S. European Command (USEUCOM) was already implementing many of the recommendations made by the Board. Since 1993, USEUCOM has been using the Quarterly Component Readiness Review (QCRR) which is based upon Status of Resources and Training System (SORTS) input and detailed Component Commander reports. The USEUCOM QCRR measures readiness in the areas of training, personnel, logistics, equipment on hand, funding, and quality of life. Component commanders provide a current assessment in each of these areas as well as a three to six month projection. Their assessments are both objective and, in some areas, subjective.

Additionally, USEUCOM, since December 1994, has been reporting on Joint Readiness as part of the Chairman's Readiness System. Every month, the CINCEUR submits to the Chairman a Joint Monthly Readiness Report (JMRR). The JMRR assesses CINCEUR's operational readiness in the areas of mobility, intelligence/surveillance/reconnaissance, joint headquarters capability, C4, logistics/sustainment, special operations, infrastructure and joint personnel. Each of these eight areas is measured against a designated Major Regional Contingency (MRC) scenario and provides both a current and a 12 month projection of readiness. The scenario for the March 95 JMRR began with USEUCOM involved in a LRC and transitioned into a two MRC scenario. With the Chairman's Readiness System, all CINCs are now reporting in a common, standardized procedure that is much more objective than previous reports.

REPORTING READINESS

QUESTION: The JCS recently implemented the Joint Readiness System for the CINCs to use in reporting readiness. Please describe:

(a) how the new system provides a more objective readiness assessment, and

(b) the specific criteria that has been provided to the CINCs for reporting in the eight areas of the Joint Monthly Readiness Review.

Rear Admiral Lair: Commander-in-Chief U.S. European Command (CINCEUR) has been participating in the Joint Monthly Readiness Review (JMRR) since December 1994. This relatively new system provides a standardized reporting system for all the CINCs to report operational level readiness. The JMRR measures readiness in the eight areas of: Mobility, Intelligence/Surveillance/Reconnaissance, Joint Headquarters Capability, C4 (Command, Control Communication, and Computers), Logistics/Sustainment, Special Operations, Infrastructure and Joint Personnel. It is more objective than past reports in that it measures each area against a specified Major Regional Contingency (MRC) scenario and provides both a current and a 12-month projection of readiness in each area.

The Joint Staff and the CINC's readiness officers met in January 1995 to define a common set of measurement criteria (metrics) to be used in assessing the eight functional areas. Since January all CINCs have been using these common metrics. Additionally, each CINC has his own unique theater requirements and is allowed to develop theater unique metrics to augment the common metrics. The Chairman's Readiness System has provided much more objectivity to the reporting of "operational" level readiness by the warfighting and functional CINCs.

JOINT EXERCISE PROGRAM

QUESTION: According to JCS officials, the Chairman's Joint Exercise Program includes exercises that are of marginal training value while other so-called joint exercises involve only a single Service. What actions are being taken to improve the joint training program?

Rear Admiral Lair: The joint training conducted in U.S. European Command (USEUCOM) is requirements-based, and not event-driven. The Service Component Commanders in USEUCOM fulfill their training responsibility and provide me with well trained forces. We then employ these forces in joint and multinational training exercises such as last fall's highly successful "Atlantic Resolve 94." This and other exercises scheduled for fiscal year 1995 help maintain the high state of readiness in this command.

I see proof of successful training daily. USEUCOM forces help enforce UN Security Council Resolutions in the Adriatic; in the skies over Bosnia, they conduct airland and airdrop flights to feed the hungry in Bosnia-Herzegovina, and they protect the people of Northern Iraq from the brutality of Saddam Hussein.

Another example of USEUCOM forces' successful training was OPERATION SUPPORT HOPE. When tragedy struck last summer in Rwanda, USEUCOM forces

deployed 3,600 miles to Central Africa. This joint force stopped the dying of thousands of Rwandans. Within one week, the death toll fell from 6,000 a day to 500, and in a month's time was less than 200.

SUPPORT HOPE proved that well-trained and supplied military forces can contribute to emergency humanitarian relief operations.

EUCOM's Joint Training Plan (JTP) contains 56 CJCS supported joint training exercises for FY 95. These exercises are broken down into four categories:

1. NATO exercises.
2. Joint Task Force training exercises.
3. Bilateral exercises with NATO countries and other allies.
4. Partnership for Peace (PfP) and "in the spirit of Partnership for Peace" exercises.

The 56 exercises in the JTP are:

- 15 NATO exercises.
- 7 Joint Task Force training exercises.
- 31 bilateral exercises.
- 3 Partnership for Peace or "in the spirit of Partnership for Peace" exercises.

An additional 21 PfP and "in the spirit of PfP" exercises are in various stages of planning for fiscal year 1995.

EUCOM plans to reduce the scope of one of our bilateral exercises (FLINTLOCK, PHASE II) during fiscal year 1995. EUCOM has canceled one Joint Task Force training exercise (SHADOW CANYON 95) in fiscal year 1995 because of a reorganization of our Joint Task Force training program. A total of 76 exercises are envisioned for execution in fiscal year 1995.

JOINT OPERATIONS

QUESTION: Recently, JCS made significant changes to its strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command. Other regional CINCs have voiced concerns about the command's ability to train forces for their use. What actions are being taken to address these concerns?

Rear Admiral Lair: The forces provided to us by the U.S. Atlantic Command (USACOM) understand joint operations. USACOM superbly executed the joint operation in Haiti. We look forward to working with them this Fall in their upcoming exercise, UNIFIED ENDEAVOR 96-1. In this exercise, they will simulate sending forces to this theater to conduct a specific USEUCOM operation under CINCEUR's command.

I am impressed with joint and combined warfare training recently conducted by U.S. Atlantic Command (USACOM) for Joint Task Force (JTF)-95. The capabilities and responsiveness of the USS Eisenhower adaptive joint force package surpass those of previous experimental versions. We have reached agreement with USACOM regarding the training of dual-based forces -- an important milestone toward their true integration with our forward based forces. United States Guard and Reserve units have been essential to rotating active units out more frequently to support training. Last year, elements of U.S. Air Forces Europe deployed some personnel at a rate of about 210 days per year. Because of Guard and Reserve augmentation, USEUCOM reduced this rate to about 135 days per year, with a goal of 120 days per year.

READINESS

QUESTION: Are you adequately resourced to accomplish the needed training to meet the range of mission requirements?

Rear Admiral Lair: Throughout the planning, programming and budgeting cycle, USEUCOM has ample opportunity to weigh-in with its requirements. Furthermore, legislative hearings such as these provide another path to ensure USEUCOM's requirements are given due consideration. The President's budget meets a sufficient level of our requirements. However, additional resources would be used to meet some underfunded programs: Real Property Maintenance, Theater Ground Support Maintenance, Battle Simulations, Installation Level Maintenance, Youth Development Services, Child Development Services, Information Management, Installation Transportation Services, and Unaccompanied Personnel Housing Operations and Furnishings.

QUESTION: What are the current restrictions on training range access for both ground and air training? What training is not being accomplished and what is the readiness impact? How are training deficiencies being addressed?

Rear Admiral Lair:

The Army and Navy training ranges are adequate for most training needs. The biggest problem USEUCOM faces is having adequate air-to-ground ranges for our attack aircraft. For example, the bombing range in Avgo Nisi, Greece, is no longer available for live ordnance or night delivery. Additionally, aircraft participating in Operation PROVIDE COMFORT do not have air-to-ground ranges available to practice weapons deliveries.

USEUCOM is addressing these problems in two ways. First, we are working with our friends and allies to provide greater use of existing ranges, and to allow construction of new ranges. The new air combat maneuvering range at Decimomannu, Italy, is an example of this type of arrangement. The second way USEUCOM addresses this problem is by frequently rotating aircrews out of contingency operations to give them opportunities to train. This provides them the opportunity to use other ranges and the chance to attend RED FLAG and MAPLE exercises in the

United States. Guard and Reserve units have been essential to rotating active units out more frequently to support training. Last year, elements of U.S. Air Forces Europe deployed some personnel at a rate of about 210 days per year. Because of Guard and Reserve augmentation, USEUCOM reduced this rate to about 135 days per year, with a goal of 120 days per year.

IMPACT OF CONTINGENCY OPERATIONS

QUESTION: Do you have any concerns about the Services' ability to access sufficient numbers of reserve component volunteers to meet the requirements of contingency operations?

Rear Admiral Lair: The Bottom-Up Review provided guidance on resource enhancements. Title XI enhancements are now being implemented. The Defense Planning Guidance (DPG) provides resourcing guidance to ensure deployability of the Enhanced-Brigades (E-Bdes) within 90 days of call-up. The Department of Defense (DOD) is making a concerted effort to resource the E-Bdes commensurate with their mission. Each and every GAO concern is being addressed by the Army. The Army stands by its commitment to deploy E-Bdes within 90 days of call-up.

During regional contingencies, the reserve components will continue to provide forces as they have in our ongoing operations. Enhanced readiness brigades, along with contingency force pool combat support and combat service support units will deploy to augment, reinforce and/or support deployed active units. Guard and Reserve forces have been an integral part of Operations DENY FLIGHT, PROVIDE PROMISE and PROVIDE COMFORT II. In fiscal year 1995, eleven states are scheduled to provide

Guard and Reserve forces to augment our active duty forces participating in contingency operations.

Recent modeling for Army General Headquarters Exercises (GHQ) has confirmed the immediate need for E-Bdes as reinforcement, sustainment and reconstitution forces of the CONUS contingency force, and backfill of deployed forward presence forces or forces engaged in Peace Support Operations. An active component force of ten divisions must be augmented to win a two MRC scenario.

Army's Forces Command (FORSCOM) is currently developing training strategies to address each of the GAO concerns. These innovative strategies will be implemented by fiscal year 1997 when the E-Bdes will be fully organized and resourced. However, at any one time Army National Guard (ARNG) units will have untrained personnel. To remedy this situation the E-Bdes will be over strength by approximately five percent and untrained personnel will not mobilize with the unit.

Today, most Enhanced-Brigades could achieve C1 within 90 days of mobilization. Development of mobilization training models by FORSCOM and Rand Corporation will result in all E-Bdes being deployable within 90 days of call-up. This accomplishment is even more credible given that FORSCOM plans to mobilize the E-Bdes in increments of three to four at a time. This will allow the ARNG concentrate resources on each E-Bde increment as it mobilizes. Additionally, the 90 day ceiling was based on the requirements of heavy E-Bdes; the light E-Bdes can be ready sooner.

With regard to Officer and NCO leadership training, since the GAO observation was made ARNG has implemented the Select-Assign-Train-Promote policy. This policy, in conjunction with the Total Army School System (TASS), will provide sufficient opportunities for ARNG leaders to attend the required training.

IMPACT OF CONTINGENCY OPERATIONS

QUESTION: What has been the impact of contingency operations on your readiness for major regional conflicts?

Rear Admiral Lair: Contingency operations are not, in and of themselves, a problem. The medical, civil affairs, and water purification units we sent to Rwanda accomplished their humanitarian mission without any loss of readiness. Contingency operations provide unique training opportunities to our forces that are often overlooked. In fact, as a result of Rwanda, these units are more prepared to perform their wartime missions. In contingency operations, U.S. European Command (USEUCOM) forces perform real world missions in multinational operations. There are, however, certain warfighting skills that are lost over time due to involvement with these operations. To minimize the impact, USEUCOM rotates National Guard and Reserve units with our active duty forces to give them the opportunity to train and maintain readiness.

The amount of readiness we lose in executing contingency operations incurs a greater risk for our forces. The risk is currently at a manageable level. An additional problem is that the O&M dollars used to fund these contingencies are no longer available for training.

The timing of supplemental reimbursement is critical. Last year, late receipt of supplemental funding resulted in forfeiture of some training opportunities in the last quarter of FY94. USEUCOM is currently funding FY95 contingency operations with fourth quarter funds and CINCEUR has gone on record saying that, if we do not receive a timely supplemental for fiscal year 1995, USEUCOM units may not fly in the final quarter.

USEUCOM has been able to sustain its readiness despite the high Operational Tempo (OPTEMPO). However, late receipt of the FY94 supplemental funding caused some training shortfalls. It was pretty tough to execute the supplemental because we received it in the last month of fiscal year 1994. For instance, 48th Fighter Wing, RAF Lakenheath, United Kingdom, canceled a MAPLE FLAG exercise, squadron exchanges with Allies, and a Weapons System Employment Program (WSEP) in order to ensure airframe, spare parts, and aircrew availability for OPERATION DENY FLIGHT. Additionally, USAREUR executed a fiscal year 1994 OPTEMPO of only 569 miles (800 miles was the training goal). Late receipt of supplemental funding contributed to these shortfalls.

Generally, there are certain assumptions and caveats to the two Major Regional Conflict (MRC) scenario that must be taken into account. U.S. involvement in the four lesser regional conflicts (LRCs) ongoing in the EUCOM area of responsibility today may have to cease to prevent the level of risk from becoming unacceptably high. Starting new ones, such as implementing a peace plan in Bosnia, may impact our ability to carry out two MRCs simultaneously. I also agree with recent statements that the current ability of our airlift fleet to handle two simultaneous MRCs is a concern.

Current planning apportioned 100 percent of the force structure to the two MRCs. This implies early extraction from all peacekeeping to successfully support two near-simultaneous MRCs or we must accept higher risk in the second MRC. Cultivating effective Allied coalitions allows potential for transitioning peacekeeping functions to our Allies and adds to our military capability in MRC operations.

QUESTION: What have you identified as the units or capabilities most stressed in meeting operations requirements? What has been the impact on readiness of these units or capabilities to respond to regional conflicts? Are you satisfied that sufficient corrective action is being taken to relieve this situation?

Rear Admiral Lair: U.S. European Command (USEUCOM) units and capabilities that are most stressed in meeting operations requirements are

USAFE

tactical aircrew and maintainers, Air Force Special Operations, Naval Intelligence and Cryptographic personnel, and Air Force communications, services, transportation, defensive air control, security police and postal specialists.

Involvement of U.S. forces in contingency operations has resulted in some short term degradation in the readiness of U.S. forces in Europe to respond to a regional conflict. UN operations in northern Iraq have a negative impact on unit readiness. Air Force fighter units deployed to support enforcement of the No Fly Zone have limited ranges and airspace needed to conduct air to ground ordnance delivery and low level training. Special Operations Forces (SOF) deployed to provide a Combat Search and Rescue capability are unable to conduct unique training such as special reconnaissance and direct action. The Government of Turkey does not allow our SOF to conduct training beyond a 50 mile radius of Incirlik Air Base. USEUCOM fighter and special operations units that support Operation Deny Flight have encountered similar limitations. The 510th and 555th Fighter Squadrons, based at Aviano, Italy, have been unable to accomplish their Nuclear Surety Inspections and other training due to competing Deny Flight tasking.

The U.S. contribution to Task Force Able Sentry has resulted in some degraded readiness of one mechanized infantry battalion. The battalion is broken up to provide a reinforced company to conduct peacekeeping operations. The unit is unable to conduct battalion level maneuver training, gunnery, training and maintenance on their organic M2 Bradley infantry fighting vehicles and some other areas. I would also like to note that some areas of unit readiness, such as self protection, NCO leadership, and observation are enhanced when a unit is called upon to actually accomplish them, as is the case in Task Force Able Sentry.

Unfunded contingency operations have required our components to divert funds from Operations & Maintenance, Base Operations (BASOPS) and

Quality of Life accounts. U.S. Air Forces Europe (USAFE) has \$242 million in unfunded fiscal year 95 contingency operations costs. Without supplemental funding USAFE will cease tanker operations in early July 1995 and fighter operations in early August 1995. U.S. Navy Europe (USNAVEUR) has a \$4.5 million shortfall for operations in the Adriatic. If this shortfall is not made up, they will transfer funds from BASOPS accounts to cover the shortfall.

To help relieve some of the impact of these contingency operations on readiness, USEUCOM has aggressively used National Guard and Reserve units to augment active duty forces. For example, Guard and Reserve units have reduced the days some of our Air Force aircrews have been deployed from about 210 days per year to about 135 days per year. This gives our forces an opportunity to train as well as participate in major training exercises, such as MAPLE FLAG and RED FLAG in the United States.

IMPACT OF CONTINGENCY OPERATIONS

QUESTION: Do you expect the high pace of operations to continue? If so, what do you see that needs to be done to ensure force readiness to meet your short-term and long-term requirements?

Rear Admiral Lair: U.S. European Command (USEUCOM) is able to sustain the current Operations Tempo (OPTEMPO) which we expect to continue. However, unfunded contingency operations have required our components to divert funds from Operations & Maintenance (O&M), Base Operations (BASOPS) and Quality of Life (QOL) accounts. U.S. Air Forces Europe (USAFE) has \$242 million in unfunded fiscal year 95 contingency operations costs. Without supplemental funding USAFE will cease tanker operations in early July 1995 and fighter operations in early August 1995. U.S. Navy Europe (USNAVEUR) has a \$4.5 million shortfall for operations in the Adriatic. If this shortfall is not made up, they will transfer funds from BASEOPS accounts to cover the shortfall.

To help relieve some of the impact of these contingency operations on readiness, USEUCOM has aggressively used National Guard and Reserve units to augment active duty forces. For example, Guard and Reserve units have reduced the days our Air Force aircrews have been deployed from about 210 days per year to about 135 days per year. This gives our

forces an opportunity to train as well as participate in major training exercises, such as MAPLE FLAG and RED FLAG in the United States.

The high pace of USEUCOM operations will likely continue. Given these contingency operations continue, they must be funded or we take O&M funding out of hide. Contingency operations drain these accounts unless they are reimbursed in a timely manner through supplemental funding.

One of the best investments we can make to ensure long-term readiness is to provide our troops an acceptable quality of life. Now that the drawdown is almost over, we must invest in military construction to ensure our people have adequate housing, child care, health care and other facilities to meet their basic needs.

Finally, modernization is another area needed to ensure readiness. While providing equipment is primarily a Service issue, ensuring our troops retain the combat edge--that proved so effective in the Gulf War--is a DOD responsibility. We must balance the requirements throughout the DOD to ensure we have the right programs across the spectrum of warfighting needs.

TRAINING

QUESTION: Recently, JCS made significant changes to the strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command.

(a) What has been the experience with this concept?

(b) Does it impede your ability to conduct their training programs?

Rear Admiral Lair: U.S. European Command (USEUCOM), as the warfighting command, is working well with our force provider, the U.S. Atlantic Command (USACOM), in establishing training requirements. I have been pleased with the quality and level of training of the forces USEUCOM receives to augment our permanently stationed forces. This is evident in the outstanding job these men and women have done in executing the many ongoing operations in this theater.

The forces provided to us by USACOM understand joint operations. USACOM superbly executed the joint operation in Haiti. We look forward to working with them on their upcoming exercise, UNIFIED ENDEAVOR 96-1, this Fall. In this exercise, they will simulate sending forces to this theater to conduct a specific USEUCOM operation under CINCEUR's command.

I am impressed with joint and combined warfare training recently conducted by USACOM for JTF 95. The capabilities and responsiveness of the USS Eisenhower adaptive joint force package surpass those of previous experimental versions. We have reached agreement with USACOM regarding the training of dual-based forces -- an important milestone toward their true integration with our forward based forces.

The overall impact on EUCOM's ability to conduct joint training within this theater has been minimal. We continue to conduct joint training with the forces forward deployed in this theater, in addition to joint training with forces earmarked for this theater. The forces we receive for rotational deployment and reinforcement continue to be ready and well trained for joint operations.

QUESTION: What are your views on adaptive joint force packaging? Do these tailored forces provide you with sufficient capabilities to conduct anticipated military operations?

Rear Admiral Lair: I agree with the need to adapt forces to accomplish anticipated missions. However, I must emphasize that the warfighting Unified Commander must define the requirements for the supporting command. USEUCOM, as the warfighting command, has been working well in establishing training requirements with our force provider, the U.S. Atlantic Command. I have been pleased with the quality and level of training of the forces USEUCOM has received to augment our permanently stationed forces.

The adaptive joint force package provided to USEUCOM must be robust and responsive to deal with the anticipated mission and the unforeseen contingencies. EUCOM needs forward deployed forces for Overseas Presence Missions that are prepared for one of the most difficult tasks they may face - crisis response. Adaptive packaging must remain task oriented and flexible while meeting day to day needs.

ARMY NATIONAL GUARD ENHANCED BRIGADES

QUESTION: Although 15 enhanced brigades in the Army National Guard (ARNG) are a critical element of the Clinton military strategy, the Army continues to experience major problems in adjusting its training strategy to meet this need.

Are these brigades fully integrated into your contingency scenario? Are you comfortable that the readiness levels of these brigades are adequate to be fully integrated into your contingency plans? If not, what improvements are needed?

Rear Admiral Lair: Recent modeling for Army General Headquarters

Exercises (GHQ) has confirmed the immediate need for Enhanced Brigades (E-Bdes) as reinforcing, sustainment, and reconstitution forces of the CONUS contingency force, and backfill of deployed forward presence forces or forces engaged in Peace Support Operations. An active component force of ten divisions must be augmented to win a two Major Regional Conflict (MRC) scenario.

Additionally, the Bottom-Up Review provided guidance on resource enhancements. Title XI enhancements are now being implemented. The Defense Planning Guidance (DPG) provides resourcing guidance to ensure deployability of the (E-Bdes) within 90 days of call-up. The DOD is making a concerted effort to resource the E-Bdes commensurate with their mission. Each and every GAO concern is being addressed by the Army. The Army stands by its commitment to deploy E-Bdes within 90 days of call-up.

Forces Command (FORSCOM) is currently developing training strategies to address each of the GAO concerns. These innovative strategies will be implemented by fiscal year 1997 when the E-Bdes are fully organized and resourced. At any one time, Army National Guard (ARNG) units will have untrained personnel. To remedy this situation the E-Bdes will be over strength by approximately five percent and untrained personnel will not mobilize with the unit.

The E-Bdes are integrated where appropriate as apportioned for planning or to fill a mission shortfall. Today, enhanced brigades can achieve C1 within 90 days of mobilization. Efforts in developing resource intensive pre- and post-mobilization training models by FORSCOM and Rand Corporation will result in all E-Bdes being deployable within 90 days of mobilization by 1999. This accomplishment is even more credible given that FORSCOM plans to mobilize the E-Bdes in increments of three to four at a time. This will allow the ARNG concentrate resources on each E-Bde increment as it mobilizes. You must also remember that the 90-day ceiling was based on the requirements of heavy E-Bdes; the light E-Bdes could be ready much sooner.

The Advanced Research Project Agency (ARPA) is playing a pro-active role in developing essential pre-mobilization training programs. Gunnery training will utilize advance simulation and integrated training techniques specially designed to meet Reserve Component (RC) training requirements. Gunnery training is also included in the E-Bdes' post-mobilization training plan.

With regard to Officer and NCO leadership training since the GAO observation was made, Army National Guard (ARNG) has implemented the Select-Assign-Train-Promote policy. This policy, in conjunction with the Total Army School System (TASS), will provide sufficient opportunities for ARNG leaders to attend the required training.

BOSNIA

QUESTION: What are the current plans for handling the withdrawal of peacekeeping forces from the former Yugoslav Republics? What problems do you envision?

Rear Admiral Lair:

PREPOSITIONING

QUESTION: How do you view the value of land-based prepositioned equipment in Europe and are there other alternatives that would provide more mobility?

Rear Admiral Lair: Land-based Army War Reserve Prepositioned Sets (AWRPS), formerly POMCUS (Prepositioning of Materiel Configured to Unit Sets), are vital to a deployable force. AWRPS are a visible sign of our commitment to the NATO alliance, serve as a force multiplier, and enhance rapid deployability. The equipment is required to support U.S. contingency operations and meet NATO reinforcement commitments. Analysis continues to show AWRPS save time, money, and conserves our strategic lift when it is most in demand. AWRPS allow flexible, rapid response to any LRC in our area of responsibility (AOR), and can support a Major Regional Conflict (MRC) outside our AOR.

We will continue to store and maintain warfighting equipment in AWRPS. Quantities will be reduced and reconfigured to support the revised European basing plan. U.S. Army Europe's endstate will be a corps of two divisions. Each division will have two in-place and one CONUS-based reinforcing brigade. We are shaping a theater strategy that may effectively reduce the AWRPS requirement for NATO's Central Region

from four to two brigade sets with appropriate support assets, and preserve the Army Reserve Package South (ARPS) in NATO's Southern Region.

The ARPS in Italy provide great flexibility and capability in response to our NATO commitment as well as being well-positioned to quickly support a unilateral U.S. decision to employ the assets.

ADEQUACY OF AIRFIELDS

QUESTION: We have heard reports that the number of base closures overseas has seriously impacted on enroute bases infrastructure needed to airlift our equipment and people to a regional conflict. Particularly, the number of closures in Europe has limited our capabilities for deploying to Southwest Asia and there may be airfield availability problems in South Korea. Would you please comment on this and what are the remedies?

Rear Admiral Lair: Numerous studies conducted over the past year, such as the Air Mobility Command (AMC) analysis, Mobility Requirements Study (MRS), and ECJ4's Southern Region Throughput Analysis have independently validated the European theater's throughput requirements to support a Southwest Asia (SWA) operation. These requirements are an intrinsic part of USTRANSCOM's recent study on throughput capabilities of the seven strategically located European gateways: Torrejon AB, Spain; Naval Air Station Rota, Spain; Moron AB, Spain; Zaragoza AB, Spain; Rhein Main AB, Germany; RAF Mildenhall, United Kingdom; and Ramstein AB, Germany. The study compared DESERT STORM Short-Tons per Day (STONS/DAY) through those seven ports to current capabilities and requirements and found that capabilities are impacted.

The remedy is to stop the deterioration of strategic lift capabilities, and infrastructure. Decisions regarding the enroute basing capability in this theater have been driven by shrinking Service budgets, not operational requirements. The political decisions to downsize DOD were made long before the identification of operational needs or the new military strategy was approved. This theater represents a partnership of interests between CINCEUR, CINCTrans, CINCCent, and the Services; wherein CINCEUR is the senior partner. Throughput support capabilities represent the fundamental interest. DOD, EUCom and TRANSCOM studies consistently validate the need to retain current enroute basing structure to support CENTCOM. Meanwhile, ongoing Service budget-driven decisions regarding these bases and infrastructure will continue to degrade our throughput support capability.

INTEGRATED PRIORITY LIST

Question: What are some of the items identified by your command on the "integrated priority list" and, of these, what do you view as the most critical?

Rear Admiral Fargo: CINCUSACOM's integrated priority list addresses two categories of issues: near term readiness priorities and priorities to recapitalize America's combat capability. Within those two categories, 15 issues are addressed in order of priority. Our nine near term readiness priorities include force readiness; strategic mobility; logistics support/sustainability; global command, control, communications, computers, and intelligence (C4I); joint training and exercises; theater lift; littoral warfare; chemical, nuclear, and biological protection, and electronic warfare. Our six priorities for recapitalization address mobility; theater missile defense; information warfare; amphibious lift; fighter/strike aircraft modernization, and maintaining a submarine technology advantage.

Presently, the most critical priority for U.S. Atlantic Command is to receive full and immediate reimbursement for the funds which our Service Components have expended in support of contingency operations. During Fiscal Year 1994 through February 1995, USACOM Service Components have obligated over \$895 million dollars for contingency operations in Haiti, Guantanamo Bay, Panama, Southwest Asia, and Korea. If not immediately reimbursed, loss of these funds will begin to have substantial adverse impacts on the training, maintenance, readiness, and welfare of our warfighting forces beginning April, 1995 and continuing into Fiscal Year 1996. This impacts will include deferment of equipment, ship and aircraft depot level maintenance; deferment of additional camp improvements at Guantanamo Bay, Cuba; deferred renovation of bachelor enlisted quarters; non-replenishment of unit and individual equipment which has become unserviceable through use; deferment of environmental programs; deferment of facility and minor construction projects and a significant reduction in flight operations and ship steaming days (Navy/Marine flight operations would be reduced by approximately 16,000 hours; Air Combat Command would curtail nearly all flight operations by the end of July, with support provided only to contingency operations; non-deployed ship steaming days would be reduced by approximately 675 ship days).

LIFT

Question: Last year, the committee provided \$50 million for a mobility enhancement package and has received a list of critical areas where this money is needed. In our hearing with the services and with the CINC's, one message comes through loud and clear: Lift is the most pressing requirement. What are your views on specific items that are needed now to ensure that mobility is provided for your AOR?

Rear Admiral Fargo: Today's challenging strategic landscapes require a flexible and highly capable force. A significant portion of the Defense force is based in CONUS and must be able to deploy worldwide in a timely manner. Though troop strengths overseas are significantly reduced, our regionally oriented strategy still demands a very credible overseas presence. Strategic airlift and strategic sealift are essential to enable a CONUS based force to meet worldwide commitments.

In our AOR, there are very poor seaports and airfields which limit our ability to close and sustain forces. In the area of airlift, it is critical that we develop advanced aircraft systems that will replace aging C-141s and C-5s. Without C-17 acquisition/airlift modernization, the ability to provide tactical airlift will be degraded. The C-17 will also provide tactical outsize cargo capability not now provided. The C-17 aircraft can also operate more efficiently and provide direct delivery in our AOR, far better than the current C-141 fleet.

In the area of sealift, we must continue to fund acquisition profiles that meet requirements of Mobility Requirements Study Bottom-Up Review Update (MRS BURU) for final delivery by Fiscal Year 2001. Another area is to continue the funding for the Army and Marine Corps Maritime Prepositioning Forces (MPF) enhancements. The MPF enhancement concept provides additional prepositioned ships capable of in-stream discharge of containers and equipment. MPF enhancement ships would support the spectrum of military operations and permit rapid deployment/sustainment of significant expeditionary capabilities. Improvements in strategic lift are critical to successful execution of current national military policy.

CATEGORIZING READINESS AND PRIORITIES

Question: The Department of Defense places readiness into three categories:

Near term: largely robust O&M spending.

Medium term: more intangible such as quality of life and people programs.

Long term: modernization of equipment and maintaining the technological advantage enjoyed by U.S. forces.

What are your personal views on how this balance is being maintained and what are your concerns?

Rear Admiral Fargo: There are several factors affecting each of these categories, however, I think overall the first two categories, near and medium term, are better off than the third category, long term readiness. If the contingency supplemental bill now in Congress is approved, both near term O&M spending and medium term expenditures should maintain our current readiness standards. And, I might add, medium term readiness is the recipient of considerable funding interest as a result of Secretary Perry's initiatives committing \$25 billion to improve quality of life and people programs over the next five years. It's important to remember that these programs compete for the same dwindling resources which support training/readiness. The long term recapitalization of our forces, however, must be given increased focus to ensure aging equipment, ships and aircraft are replaced with modern technology to help maintain our battlefield advantage. We must be ever mindful about slipping new acquisitions to fund current O&M shortfalls. Since USACOM and the other Unified Commanders do not have acquisition dollars, we need to continue working closely with our components to ensure our best interests are represented to higher authority.

If the supplemental is paid for through a rescission, the potential to impact long term readiness is high.

CRITICAL FORCE ENHANCEMENTS

Question: There is an emerging consensus that critical force enhancements are essential in the following categories:

- strategic mobility including airlift, sealift, and prepositioning;
- advanced precision-guided munitions to increase the lethality and survivability of U.S. forces;
- enhancements to surveillance and command and control, and communications capabilities;
- improved readiness among selected reserve component forces, particularly the 15 brigades of the Army National Guard.

Please provide your personal views on these priorities and what other types of enhancements are necessary for you to perform your taskings?

Rear Admiral Fargo: Each of the critical force enhancements you address are key to maintaining our competitive advantage in combat in the years ahead. As we have reduced forces deployed to overseas locations, maintaining the capability to rapidly deploy or redeploy forces anywhere in the world has increased in importance. Strategic mobility using a combination of sealift, airlift and prepositioned assets is crucial to ensuring our forces' flexibility to respond to a variety of contingencies anywhere in the world in a timely manner. Once deployed, our forces must have the tools to engage the threat. Advanced precision-guided munitions build on our previous technological success to both give us lethality and to give us standoff capability that better protects our own forces. The emerging new families of these weapons show great promise, especially when coupled with the enhancements to surveillance, command, control and communications addressed here. Building a battlespace picture for the warfighter will enable us to choose the appropriate force or combination of forces to deter or destroy threatening forces. Much work is being done to ensure we have the right forces, the right equipment and the right training to seize the advantage we have as a result of the technological advances in this area. In addition to the aforementioned requirement for strategic mobility, we need to continue the ongoing initiatives supporting our Reserve and National Guard forces. Our increased reliance on these forces as active force structure has been reduced makes it imperative that their readiness and ability to perform alongside their active duty counterparts is uncompromised. Our reserve forces have already proven their capabilities in the past few years from DESERT STORM to Haiti. Rapid access to these reserve forces is also an important element of the equation. They will continue to be vital to our national military strategy in the future and must be supported accordingly. In summary, I fully support force enhancements in each of these four areas. They are vital to how we as a military must operate today and well into the future.

CRITICAL CAPABILITIES

Question: Please provide your views on the adequacy of the capability in the following areas:

- Chemical and biological weapons defense.
- Mine countermeasures.
- Command, control and communications.
- Precision munitions.

Rear Admiral Fargo: Chemical and biological weapons defense. Service members assigned to USACOM units are individually well trained and equipped to meet the challenges of fighting and winning in a Nuclear, Biological or Chemical (NBC) environment. Investments made by the DoD over the past few years in individual NBC equipment have greatly enhanced the capability of the individual service member to operate under NBC conditions. It is important we continue to fund these current programs.

Forces require an improved capability to detect, identify mark and report the presence of NBC hazards in operating areas. It is imperative we continue to develop and field the Light Nuclear, Biological and Chemical Reconnaissance System (LNBCRS). This system is a variant of the already fielded Fox NBC Reconnaissance vehicle, but mounted on a wheeled chassis. The LNBCRS will support this requirement for light forces.

Additionally, the development of the Biological Integrated Detection System (BIDS) should be continued. This system will provide forces with the ability to detect and identify the presence of biological warfare agents on the battlefield.

Mine Countermeasures. Today's engineer force relies on aging, difficult to maintain systems (to conduct mine countermeasures) that are insufficient to support heavy maneuver force operations in two MRCs. The modernization and

technology gap among the combat functions of maneuver and mobility/survivability is extremely wide today and continues to increase. This directly impacts the ability of the commander to maneuver his forces in a manner which maintains momentum -- a key element in battlefield (ashore or at-sea) success. The procurement of the M1 Breacher, ASTAMIDS, WAM, DEUCE, digital topographic capability, and other systems being developed is a start to a more responsive, efficient, and flexible mine countermeasures capability.

Specific evaluations of mission areas. Each rated as follows:

RED - No or very limited capability

AMBER- A limited capability or quantity

GREEN- Adequate capability or quantity

Command, Control, and Communications. Although command, control and communications systems are generally adequate at the service level, it is achieved with expensive duplication and inflexible stovepipe systems. We are developing the Global Command and Control System to solve this problem. It is a joint system that brings together the best of those legacy stovepipe systems in a common operating environment. It provides us a capability that supports joint operations in a single interoperable system. The system is being fielded now and should reach initial operational capability this fall.

The Joint Tactical Information Distribution System is critical as the primary tactical data link for adequate data link/combat ID interface exchange between services.

Satellite communications are vital for modern warfare and must remain adequate with world-wide coverage to include the northern polar regions. UHF

follow-on, UHF DAMA, the commercial satellite communications initiative are needed.

Precision Munitions. The Services continue to develop and procure precision munitions in accordance with Defense Planning Guidance. Their emphasis appropriately remains on those systems that can meet Theater Commander requirements for real time targeting, precision strike, standoff capability and improved hard-target penetration. Central to this effort is the Science and Technology Strategy which provides the framework for pursuing and converting superior technology into affordable, decisive military capability. Clearly, the U.S. enjoys technological advantages over our potential adversaries; but there are some areas which require attention.

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We must maintain a minimum sustaining rate of conventional ammunition stocks that mitigate the risk of having insufficient inventory in the event of extended conflict and preserves the option of modernizing effective low cost weapons.

Lack of an adverse weather precision strike capability is another area of concern. Obscurants such as dust, smoke, haze, rain and incidental battlefield effects give the enemy a sanctuary which he can exploit. Current and planned systems that use laser, electro-optical or infrared guidance demand virtually clear line-of-sight between shooter and target.

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We must continue to pursue alternative systems capable of striking time-critical high value targets regardless of environmental conditions.

Finally, the Precision Strike Technology Symposium held in September 1994 highlighted a potential vulnerability of PGMs.

In closing, advanced munitions have a critical niche in our warfighting inventory. We must ensure that the right mix of conventional and precision guided weapons is available to meet the dynamic demands of future conflicts.

END GAME ON TASKINGS

Question: We are involved in some rather extensive peacekeeping and humanitarian efforts. For example, the Cuban problem at Guantanamo is going far longer than envisioned and the no-fly efforts in Bosnia and Iraq have been longer than expected. How do you view the need for establishing an end-game for these conflicts and are there ways to accelerate the reduced involvement of U.S. forces?

Rear Admiral Fargo: The New World Order which emerged from the collapse of the Soviet Union has dictated a new National Security Strategy capable of protecting our national interests and our own nation's security. This strategy draws from a range of political, military, and economic instruments of power. This New World Order has also brought a sense of a new thinking about the employment of our actions which dictate it should be employed within a framework of global interdependence. This has moved the United States to take the lead in forming coalitions and multilateral tasks forces to achieve our objectives.

Peacekeeping operations and humanitarian efforts are an integral part of this new National Security Strategy. They seek conflict resolution in conjunction with the international community. These operations serve important U.S. interests. However, the National Security Strategy is also very clear in stating that assessments of the threat and the identification of concise objectives are to be made before allocating resources or committing to such operations.

Because peacekeeping operations and humanitarian efforts infringe in foreign sovereignty and the fact that these are not the military's primary role, the objective of these missions must have an articulated political underpinning. Thus, the importance in establishing an end-game for these operations. Clear and articulated objectives also reduce U.S. military involvement by limiting involvements.

END GAME ON TASKINGS

The international community must be integrated to the maximum degree possible to assist in reducing U.S. military involvement. We must be forward leaning in securing bilateral or multilateral initiatives of other actors outside the U.S. military instrument. These initiatives alleviate the burden on U.S. forces. Carefully assessing the threat and the objectives will assist in determining if, in reality, a security concern does in fact exist at a given area. At times, solutions to these problems are not found in the security sphere but are rather economic in nature. Using the military to solve endemic economic or other non-security regional perplexities will not lead to active and sustained support from the American people.

There are three ways to accelerate the reduction of U.S. force involvement in these operations, which would clearly be a measure of success. The first way is to arrive at a definable end-state and complete the mission. I believe that the National Command Authority (NCA), in conjunction with the Joint Chiefs of Staff, needs to reevaluate our missions in Guantanamo, Iraq, and Bosnia. By taking a fresh look at our current involvement in these operations with a candid eye on where we want to go, I believe we can redefine the U.S. mission in these operations and establish a quantifiable end-state. This end-state can only be defined by a realistic assessment of military capabilities versus political necessities. Once a concrete political end-state is established, the U.S. military, alone or in conjunction with coalition partners, can apply the requisite force to reach that end-game, successfully complete the mission, and redeploy our people.

Realizing that the U.S. military is currently undergoing an extensive reduction in forces, the second way is to require coalition partners to invest more personnel and equipment into the "regional" operations -- Iraq and Bosnia. In conjunction with this reduction of U.S. force structure is evaluating acceptable risk. Finally, the U.S. government could contract civilian organizations to take over many military functions, such as food and transportation services. We are currently investigating this option for GTMO and are finding the costs to be substantive. A word of caution with this last option -- the Services should not be tapped to fund these civilian contracts for humanitarian relief. Such a burden would adversely affect training opportunities and ultimately hurt force readiness and they more properly belong with agencies charged with humanitarian responsibilities.

WAR GAMES AND JOINT EXERCISES

Question: We have heard that significant progress has been made in linking above-corps-level training simulations of the individual services through joint exercises. Please describe this process and also, describe your efforts and results in war games and joint exercises?

Rear Admiral Fargo: USACOM has established a new Joint Training Program which encompasses the full spectrum of training efforts conducted in Service Component training programs and CINC directed joint exercises. This program consists of field training exercises, command post exercises, and simulations-driven exercises. Our goal is to gain efficiency and effectiveness by leveraging upon Service and joint exercises and making maximum use of modeling and simulations to support our training requirements.

A cornerstone of the USACOM Joint Training Program is our Joint Task Force Training Program. This program is designed to provide commander and staff training for joint task forces and their components, focusing on the operational level of war. This training is executed in the command's Unified Endeavor exercises.

Each Unified Endeavor exercise consists of three sequential phases. Phase I consists of Academic Training Seminars designed to prepare the commander and staff officers for their respective responsibilities in the subsequent phases. The seminars focus on the roles of the JTF commander and staff, staff procedures, joint planning, joint doctrine, and joint tactics, techniques, and procedures. Phase II is a command post exercise in which the JTF staff is assembled, given a real-world crisis scenario to respond to, and required to develop a JTF Operations Order (OPORD). The staff's course of action development and wargaming efforts are supported in this phase by a full range of analytical models and simulations. Once the plans are completed the JTF executes its OPORD in Phase III in a simulations-driven exercise. This exercise uses either a joint model or a confederation of Service models to

fully exercise all elements of joint warfare and to fully tax the training audience.

In this JTF Training Program there are no stand-alone joint field training exercises, for two primary reasons. First, it is difficult under existing constraints to develop and execute a joint field training exercise (FTX) which adequately exercises the JTF commander and staff. Second, joint FTXs have historically proven to be an expensive and inefficient way to train JTF commanders and staffs. The Unified Endeavor series should prove to be a much more efficient and less expensive way to train JTF Commanders and staffs.

We will continue to look for opportunities to link training exercises and simulations. USACOM's new Joint Training, Analysis, and Simulations Center (JTASC) will have the state-of-the-art capabilities in modeling and simulations. It will provide the capability to distribute and link Service exercises and joint exercises throughout CONUS as well as around the world.

JOINT PLANS AND EXECUTION

Question: The Joint Operation Planning and Execution System or JOPES is used to build operations plans and to manage deployment. It also is used to Build the Time Phased Force and Deployment Data Base (TPFDD).

To what extent are these systems used? Are they reliable? And, to what extent are deviations required in actual deployments? What improvements would you recommend?

Rear Admiral Fargo: The Joint Operations Planning and Execution System (JOPES) is used extensively both in deliberate and crisis action planning. The Time-Phased Force and Deployment Data Bases (TPFDDs) are a product of deliberate and crisis planning and are also used extensively to plan for and deploy forces.

JOPES is a very reliable system for deliberate planning. The TPFDD in support of an operations plan (OPLAN) is a comprehensive listing of forces for planned operations. It includes support, sustainment items and replacement personnel.

During crisis action planning and execution, time is critical and the JOPES system is not reliable or responsive to deviations for several reasons. JOPES procedures call for TPFDD development and validation of movement requirements for the first seven days of airlift and the first 30 days of sealift. In a no notice crisis, the first three days (or more) of deployment are normally executed without JOPES procedures. Interfaces with service automated systems containing unit movement data to update JOPES are not sufficiently developed. Except for the Marines, these systems are cumbersome, not deployable, do not exist or are not operational. Information on deployment status (load plans and manifests) currently relies on input from several fragile sources, and does not take advantage of information available in Defense Transportation System (DTS) automated systems. Manifest information for airlift either requires manual entry in JOPES or is reliant upon unformatted comments

entries in Air Mobility Command (AMC) automated C2 systems, followed by required action on the part of a JOPES operator. For sealift, manifest information is transmitted external to JOPES. When manual input is required, there is often no World Wide Military Command and Control System (WWMCCS) access available at the source of the information and long delays and inaccuracies are common when information is transmitted to headquarters for JOPES entry.

Improvements to the JOPES system are in development and should be on line with the implementation of the Global Command and Control System (GCCS). Such improvements consist of the following: development of an interface between load manifesting system and JOPES Scheduling and Movement; a linkage between JOPES and Military Traffic Management Command (MTMC) manifests; and, of significant importance, the development of a TPFDD for rapid reaction forces. These forces provide a known capability and have established load plans. Maintaining a TPFDD which contains accurate information for these forces would allow for rapid validation of the first few days of deployment, and time for JOPES updates and validations to be worked for follow on forces in the earliest stage of the crisis. Other recommendations I'd suggest that would improve the present system would be to adopt the Marines' MAGTF II/LOGAIS family of systems as standard for all, and the use of a single system, compatible between JOPES and DTS, to identify detailed movement requirements. Data base transportation details should flow between the customer and the provider, with checks to ensure that the supported CINC's validation requirements are not violated. This would require that AMC receive detailed movement requirements external to JOPES, and JOPES be used as the Command and Control information system, not a transportation system. This would require changes to processes and procedures, and should form the basis of our future integrated deployment execution system.

COMPONENT TASKINGS

Question: When Admiral Boorda testified before the committee, he stated that he has had to ask the CINCs' for relief from some taskings due to shortfalls in the Navy. What taskings was he talking about? Have other components come to you asking for similar relief?

Rear Admiral Fargo: In the Atlantic AOR, due to shortfalls in surface combatants during the fourth quarter of Fiscal Year 94, CINCLANTFLT requested (and was granted) permission to reduce support to CJTF 4 (now DIRJIATF EAST) from three to two surface combatants (PACFLT provided a backfill surface combatant during this period). CINCLANTFLT also abandoned a planned increase from six to seven in the number of surface combatants in deploying Carrier Battle Groups provided in support of CINCUSNAVEUR.

Our other components have periodically requested relief from exercise commitments because of excessive OPTEMPO of individual units. There are similar taskings in other AORs that must be addressed by the other respective CINCs.

DEFENSE SCIENCE BOARD TASK FORCE ON READINESS

Question: The Defense Science Board Task Force on Readiness made specific recommendations regarding the need for better measurement of joint readiness. What measures have been taken to improve joint readiness assessments, and how have these measures improved the accuracy of readiness assessments? Specifically, have any of the new measures lessened the degree to which the JCS must rely on commanders' subjective assessments, or improve the ability to predict future readiness status?

Rear Admiral Fargo: Several initiatives are ongoing to ensure the readiness of our forces is being accurately and adequately measured, assessed and monitored to successfully meet the current level of taskings. First, component commanders participate with USACOM in the Chairman's Readiness System, the Joint Monthly Readiness Review (JMRR) and inputs are aggregated to monitor eight CINC Functional Areas. Additionally, joint requirements are being defined in terms of Joint Mission Essential Tasks (JMETs), compiled into CINC Joint Mission Essential Task Lists (JMETLs) and will be used by CINCs and supporting commanders to assess and prepare joint forces to meet requirements. Using the considerable assistance of other government agencies, doctrinal improvements, leveraged technology, and an aggressive training program, CINCs are able to ensure force readiness to meet current and future taskings.

The accuracy of readiness assessments has improved as a result of the emphasis in these areas. To be sure, these systems are not mature and will be refined over the near term to better reflect the "jointness" that until now has largely gone unaddressed. Of note, there is great value to even the development stage of these systems because of the staff cross talk that occurs between and among our own staff members and those of other headquarters and the Joint Staff.

Commanders' subjective assessments are vital to understanding readiness and, particularly, joint readiness. The advent of alternative reporting methods has not negated the importance of the "non-quantifiable" assessment honed by years of experience that is part and parcel of every assessment process we use. We rely on these assessments from our Joint Task Force and Component Commanders to highlight areas of concern, factors which we can influence and pertinent deficiencies being resolved with service or component assistance.

We continue to work towards predictive readiness systems that might eventually assist with budgetary priorities related to readiness. Today, for instance, we have a 12 month outlook as part of the Joint Monthly Readiness Review. Similarly, Services use their own predictive systems -- in some areas they predict readiness out 12 to 18 months. We fully support the efforts to make readiness predictive and will continue our own efforts in that regard.

REPORTING READINESS

Question: The JCS recently implemented the Joint Readiness System for the CINCs to use in reporting readiness. Please describe:

- a. how the new system provides a more objective readiness assessment, and
- b. the specific criteria that has been provided to the CINCs for reporting in the eight areas of the Joint Monthly Readiness Review?

Rear Admiral Fargo: The success of the Joint Monthly Readiness Review (JMRR) in providing more objective readiness assessments is largely because the JMRR relies on a series of Service and CINC inputs aggregated to present a broad picture of readiness. As the inputs are aggregated at both the Services' and CINCs' headquarters, they are scrutinized and discussed at several levels in the chains of command and ultimately approved by the Commanders as representing their readiness posture. For CINC inputs, metrics have been developed with the Joint Staff that help frame the functional areas. These metrics, though, recognize the uniqueness of the CINCs in some areas and so are flexible. This allows for tailored responses that add to the credibility of the assessment. The second aspect of the JMRR that helps provide better objectivity is the scenario guidance. It allows headquarters to assess readiness against relatively specific capabilities requirements within the CINC's Area of Responsibility (AOR) and against Major Regional Contingency scenarios of the Bottom Up Review.

The specific criteria/metrics have varied as the JMRR has matured and none of them are mandated by the Joint Staff. In fact, CINC representatives discussed the metrics in meetings and only within the J4 (Logistics) areas of the JMRR has the Joint Staff provided uniformly-used metrics. These are as follows (by functional area):

- Mobility: strategic airlift, strategic sealift, intra-theater mobility.
- Logistics-Sustainment: prepositioning afloat and ashore, material, health service support, support forces, munitions.
- Infrastructure: road networks, airfields and seaports, railroads, water distribution, petroleum distribution, bed down for personnel and equipment, power generation and distribution.

Dialogue with the Joint Staff, our components, other Unified Commanders and within our own staff continues to refine how we look at each of the functional areas. The JMRR is not static and adds value through the continuing discussions that become action items for headquarters' staff personnel.

JOINT EXERCISE PROGRAM

Question: According to JCS officials, the Chairman's Joint Exercise Program includes exercises that are of marginal training value while other so-called joint exercises involve only a single Service. What actions are being taken to improve the joint training program?

Rear Admiral Fargo: CINCUSACOM, acting as Executive Agent for the Chairman of the Joint Chiefs of Staff, recently convened a worldwide Joint Mission Essential Task (JMET) conference to develop a requirements based Joint Exercise Program. Representatives were present from all regional and supporting CINCs and the four Services. Once common JMET are defined by supported CINCs, and conditions and standards are applied, they will provide trainers with a coherent methodology for establishing a joint training, exercise and assessment program. After completion, the new requirements-based joint exercise program will become the primary method of objectively assessing the state of preparedness/readiness of our forces to accomplish their, Warplan-based, Joint and Service Mission Essential Tasks. As the primary joint force provider, USACOM will ensure our training and assessment programs evolve to continually meet our theater's and our supported CINC's theater requirements.

JOINT OPERATIONS

Question: Recently, JCS made significant changes to its strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command. Other regional CINCs have voiced concerns about the command's ability to train forces for their use. What actions are being taken to address these concerns?

Rear Admiral Fargo: As discussed in the preceding question, USACOM is soliciting a standardized method of determining common training requirements to support our regional CINCs. We feel that Joint Mission Essential Tasks developed from regional CINCs Warplan requirements will provide this standardization. In the meantime, we have been continuously soliciting inputs from the regional CINCs on how best to ensure the forces they receive are trained and ready on arrival. EUCOM has been providing training objectives in the form of "interim" JMETs for the past two training periods of their rotational Carrier Battle Groups and Marine Amphibious Ready Groups. Their "interim" JMETs have served as the vehicle for certifying these force were trained and ready in accordance with EUCOM's requirements. We are also providing "observer/trainers" from USACOM's training department to both EUCOM and PACOM (at their request) to assist in the standardization, where applicable, of our Joint Task Force Commander training programs.

READINESS

Question: Are you adequately resourced to accomplish the needed training to meet the range of mission requirements?

Rear Admiral Fargo: USACOM is currently involved with the other Warfighting CINCs and the Joint Staff in more closely defining worldwide joint training requirements. In order to support our training mission, USACOM should be staffed and funded to the requirements defined in the Implementation Plan. Also, the Joint Training Analysis and Simulation Center (JTASC) needs to be fully funded to realize the planned economies and maximize the leverage that emerging technologies and distributed simulation will give us. The capability and dynamic flexibility that the JTASC represents is essential to our joint training mission and has become the cornerstone of our Joint Task Force Staff training program.

Of continuing concern is the impact of contingency operations on training. Contingencies are not budgeted for and are funded at the expense of training and maintenance budgets. If timely and adequate supplemental funding is not received, readiness is directly impacted. Examples of the impacts include: reduced and/or canceled training, including joint and combined arms exercises; curtailed operations, flight hour cuts, and reduced steaming days. Actions deferred will range from ship overhauls and depot maintenance to purchase of spares inventory and replenishment. The cumulative readiness effects of these actions are considerable. Worse yet is the impact on the quality of life of our people as training, promotions and facility maintenance goes underfunded.

In summary, USACOM's mission continues to evolve as we move to execute the tasks set before us by the Defense Planning Guidance and the Unified Command Plan. If resourced according to planned levels and the costs of contingencies receive timely and adequate supplemental funding, we should be in good shape to continue our record of supplying fully trained and ready joint forces for any contingency.

Question: What are the current restrictions on training range access for both ground and air training? What training is not being accomplished and what is the readiness impact? How are training deficiencies being addressed?

Rear Admiral Fargo: The expanding capabilities of weapons in lethality, range and speed are in growing conflict with sufficient range access to properly train with these weapons. In general, the range restrictions for ground training are centered around size, noise and environmental constraints, and competition because of high demand. With some exceptions in the Southwest of the United States, ground training ranges have limited maneuver area for armor vehicle training and limited live fire areas for large caliber guns, artillery and rockets. As a result, these weapons systems can not be employed in a realistic manner in all cases at the owing units' home station. For many units to conduct realistic training, weapons and vehicles must be transported at substantial expense to fully capable ranges. Examples are MARFORLANT ground units deploy to Marine Corps Base, Twenty-nine Palms, CA to conduct combined arms training, and FORSCOM armored units deploy to the National Training Center, Ft Irwin, CA to conduct full scale armored operations.

The range restrictions for air training are centered around FAA, noise and environmental constraints. To exercise large scale offensive and defensive air operations, air training ranges need additional airspace to provide adequate tactical maneuvering, and to allow for high altitude bomb release; need ranges expanded to allow rocket and laser guided munitions delivery; and need ranges to allow for extended night operations. Again, the only ranges which possess all of these characteristics exist in the Southwestern United States. Additionally, Southwestern United States is the only location that supersonic warfare can be routinely conducted.

Training deficiencies are being addressed through limited simulations and expensive movement to fully capable ranges. In limited cases, additional range space is being acquired to expand the capability of existing ranges. Expansion is not an option in most locales because of civilian encroachment of the training areas. Most training is being conducted with "work arounds" to include smaller scale operations and application of artificial constraints.

IMPACT OF CONTINGENCY OPERATIONS

Question: Do you have any concerns about the Services' ability to access sufficient numbers of reserve component volunteers to meet the requirements of contingency operations?

Rear Admiral Fargo: Although volunteers may be used to advantage throughout contingency operations, volunteerism should not be considered a prerequisite or an alternative to seeking authority to activate Reservists without their consent.

The requirements for reserve component units and individuals for major regional conflicts (MRC) are massive, critical, and immediate. A single MRC could require numbers of Reservists in excess of 200,000 and for periods in excess of 270 days. When an international conflict has occurred, the Department of Defense should seek presidential authority to activate the reserve components without their consent as soon as possible.

The operational requirements for reserve components during contingency operations can often be met satisfactorily with volunteers.

Question: What has been the impact of contingency operations on your readiness for major regional conflicts?

Rear Admiral Fargo: We know certain commitments will adversely affect our readiness to perform selected missions. We have always faced the challenge of maintaining readiness while deployed. Historically, the decrease in readiness was caused by training constraints such as we face today: O&M funding constraints, contingency commitments in excess of our ability to maintain proficiency in all mission areas, unavailability of overseas training ranges, host nation sensitivities, etc..

Fortunately, CJCS, CINC and Service training enhancements continue to improve our warfighting capabilities. However, overall readiness has, in fact, been degraded in some areas due to heavy contingency commitments. The impact is particularly severe on low density, specialized forces. While not disregarding the inherently valuable experience that participation in contingency operations provides forces, recent contingencies have created an OPTEMPO training distribution and quality problem. A small part of the force is, in a sense, over-trained while the proficiency of other parts is diminished. This often is simply a result of balancing the O&M budget to meet requirements of supported CINCs. A prime example of this is the air crews flying combat air patrol sorties over Bosnia. These crews tend to be high on flight time, but lack training in such core areas as air to ground ordnance deliveries, training that cannot be addressed simultaneously with their forward deployment tasking. Similar effects on readiness are seen in our other components as well. The Army's TF 2-159, 18th Avn, flew over 1800 hours in Haiti, however, less than 1% were at night. They returned untrained for this wartime requirement, requiring 8 to 10 weeks to regain night vision goggle proficiency. We are addressing these issues both at the Service unit level through our components and jointly

as we train and package USACOM force capabilities to meet mission taskings of our own and supported CINCs.

From an equipment standpoint, humanitarian and peacekeeping operations place a heavy operating burden on certain types of equipment. Notably, aging C-141 aircraft have been required to fly more than calculated hours of their useful life programmed hours, thus aging the airframes more quickly. Similarly, construction equipment has been heavily utilized in virtually all OOTWs, causing increased usage of spare parts inventories and aging problems similar to the C-141 fleet. Continuous operations in harsh operating environments such as South West Asia (SWA) have affected airframe and vehicle components in those AORs. These effects, over time, will degrade the units' abilities to fight should an MRC erupt.

Funding for contingency operations is the major factor in determining how we, through our components, can maintain readiness for major regional conflicts. Typically, unfunded contingency operations have little affect on deployed and "first to fight" units. However, overall force readiness is affected through missed training opportunities, deferred maintenance of equipment and reduced operations. All of these measures attempt to compensate for funding that is diverted to pay the costs of contingency operations without rapid reimbursement through supplemental funding bills. These effects would be magnified by the outbreak of a major regional conflict.

Question: What have you identified as the units or capabilities most stressed in meeting operational requirements? What has been the impact on readiness of these units or capabilities to respond to regional conflicts? Are you satisfied that sufficient corrective action is being taken to relieve this situation?

Rear Admiral Fargo: Within USACOM, the five most heavily tasked units/skill specialties this past year have been MP Companies, transportation personnel and engineer units, surface combatant ships (including LAMPS MK III helo detachments), low density, high demand aviation units such as reconnaissance aircraft and AWACs, and the infantry battalions, helo and F/A-18 squadrons of the Marine Air Ground Task Forces (MAGTFs).

While stressing the capability of the aforementioned to cover taskings, in all cases the "first to fight" forces remain ready. Decisions to disengage or redeploy forces from operational requirements not associated with the regional conflict would necessarily best be made with as much lead time as possible. This provides the CINC with maximum flexibility to support the regional conflict with the appropriate forces.

We have recommended to the Joint Staff and are actively engaged with our components to reduce excessive commitments of these high demand forces through a number of initiatives. For MP companies, we are substituting trained surrogate units such as infantry companies trained to conduct security. With the transportation and engineer units, we are contracting out work that is not actually a warfighting mission and working hard to have reserves decrease the operational load on active duty units. We continue to review ship commitments to forward presence and contingency operations in concert with the Joint Staff and our Fleet component, attempting to balance force structure with commitment levels. Similarly, we have worked hard to reduce tasking levels on our low density, high demand aviation units. By increasing crew ratios and re-examining maintenance and training requirements, we hope to produce efficiencies that result in meeting both training and operational requirements. We have also scrubbed our exercise schedules for ways to reduce OPTEMPO, particularly for the Marines. Through careful assignment of units, elimination of duplicate requirements and substitution of other training methods such as simulation, we are trying to "work smarter, not harder". Overall, finding new ways to reduce the number, size and duration of peacetime, routine commitments in our own AOR and those AORs of supported CINCs is a key to reducing operational requirements. I am satisfied that we are aware of the situation and continuing to take appropriate corrective action to relieve the problem areas.

Question: Do you expect the high pace of operations to continue? If so, what do you see that needs to be done to ensure force readiness to meet your short-term and long-term requirements?

Rear Admiral Fargo: Yes, although within our own USACOM Area of Responsibility we have recently reduced our presence in Haiti, the current pace of operations worldwide will likely continue. Several actions can help ensure force readiness to meet short and long term requirements. Sustained funding at the proposed Fiscal Year 96 level will allow the proper balance of readiness and a satisfactory recapitalization effort to replace aging weapons systems and equipment in order to meet primary taskings. Aircraft modernization programs, increasing inventories of precision munitions, and C4I enhancements are just a few areas of improvement that will solidify America's future warfighting readiness. We must address near term readiness without drawing down modernization accounts further. Care must also be taken to avoid diverting funding from Service readiness accounts (as was done in the past two Fiscal Years) to support unplanned contingency operations. The price in canceled training events, unpurchased but needed repair parts, deferred maintenance of equipment, and degraded wartime skills is both unacceptable and avoidable. Timely reimbursement through such measures as the current Fiscal Year 95 Contingency Supplemental is key to mitigating these impacts on readiness.

TRAINING

Question: Recently, JCS made significant changes to the strategy to train forces for joint operations by placing greater responsibility for training with the U.S. Atlantic Command.

- a. What has been the experience with this concept?
- b. Does it impede your ability to conduct their training programs?

Rear Admiral Fargo: We are unsure of the intent of this question as it relates to USACOM. USACOM is well into implementing the changes directed by the 1993 Unified Command Plan (UCP) change and its associated ACOM Implementation Plan. An evolving three tiered training program has been developed to appropriately provide training emphasis on the service component joint interoperability responsibilities and the requisite joint strategic and operational joint training responsibilities of USACOM. As the formalized structure (JMET) for training to supported commander requirements matures, USACOM's joint training program will accommodate necessary adjustments to ensure its joint training remains focused on the requirements of its AOR as well as its supported CINCs. In response to part "b" of the above question, the only impediment to ACOM's ability to provide appropriate joint training has been the lack of definable requirements, with measurable standards, which can be used in training forces potentially committable to multiple theaters.

Question: What are your views on adaptive joint force packaging? Do these tailored forces provide you with sufficient capabilities to conduct anticipated military operations?

Rear Admiral Fargo: Historically, we have responded to theater requirements from a threat-oriented perspective with specific combinations of forward stationed forces and standard augmentation/reinforcement packages. From this type force specific orientation, we are moving toward capability-based planning. USACOM has initiated efforts in the area of capability-based planning and development of Joint Force Packages. Joint Force Packages are developed based on theater commander's requirements to respond to current and projected situations over a wide range. Depending upon their desired response time, these Joint Force Packages could be capable of deploying on short notice to meet requirements in any theater. The concept of tailoring and training Joint Force Packages in CONUS for worldwide applications will evolve as we restructure to meet the challenges of the new security environment.

USACOM's evolving experience in assembling tailored joint force packages for forward presence and crisis response began with Adaptive Force Packaging in the Theodore Roosevelt Battle Group and has progressed to the forward presence/crisis response joint force packages (Joint Task Force 95 series).

The JTF-95 series has been constructed under the Unified Command Plan direction to "identify and prepare, in concert with other CINCs, joint force packages for worldwide deployment." USACOM objectives are to provide enhanced joint training, provide increased capability forward, strengthen joint task force (JTF)/joint task group (JTG) C4I architecture, evaluate alternative approaches to rotational deployments, and exercise future joint capabilities. These objectives are evolutionary in nature and built on lessons learned from earlier force packaging efforts.

Enhanced joint training occurs by ensuring the forces identified for potential employment are trained together under the direction of a Joint Task Force Commander. USACOM links existing training schedules and capitalize on those events where unit level training can be enhanced to include the joint training needed to support forward CINCs. The process does not add more training to further tax organizations and personnel, but instead enhances what already exists by coordinating opportunities to train jointly.

The JTF-95 series provides an increased available capability for the supported CINCs. The forces to be utilized in JTF-95 draw from all brands of capabilities resident in the U.S. armed forces, permitting the CINCs to draw on the most capable and cost-effective options. Additionally, the JTF C4I architecture has been strengthened by ensuring it is effective, efficient, and interoperable with the supported CINC command and control architecture. Predeployment joint training exercises strengthen the commonality of doctrine and equipment.

As directed by the Defense Planning Guidance, alternative approaches to rotational deployments will continue to be evaluated. During redeployment work-ups and in-theater operations, the assigned aircraft carrier or another command and control ship can serve as the afloat Joint Task Group headquarters, with embarked Officer-in-Tactical Command. Compensation for traditional deployment packages can be obtained using the big-deck flexibility of the assigned amphibious readiness group to cover, when and if required, the absence of the carrier from the CINC area of responsibility.

USACOM's foreign disaster relief joint force package, another capabilities-based force package, is also nearing completion. This package is designed to give the theater commander a leg up before a disaster and acts as a catalyst in crisis action planning to accelerate force closure. The format of

the package is designed to provide a listing of capabilities typically required in a natural disaster. Each section lists by service component or supporting commander the generic assets that could be applied towards a specific capability.

The foreign disaster relief joint force package ensures that only what is needed is sent. In the early phases of a disaster planners select the force modules to match the capabilities needed. In this manner a capabilities-based force can be rapidly conceived and assembled.

In another recent force packaging effort, USACOM has been working with USTRANSCOM to develop a seaport operating joint force package. Although only partially complete, efforts have capitalized on the experience gained in recent joint operations to build a capabilities-based force package for opening and operating a seaport under various conditions. Five key mission areas and mission essential tasks have been developed.

Operation UPHOLD DEMOCRACY in Haiti was a good example of how joint force packaging can be used to support contingency operations. In this situation, two aircraft carriers were employed to transport army forces to the operating area where their packaging and means of employment enabled either a forced entry or a more benign entry. Specifically, special operations forces were embarked on USS AMERICA, from which they were to launch had a forced entry been required. Units of the Army's 10th Mountain Division were embarked on USS DWIGHT D. EISENHOWER, from which they entered Haiti during Operation UPHOLD DEMOCRACY. When negotiators struck a last minute deal with Haiti's de facto government, a hostile, forced entry became unnecessary. Inherent flexibility provided by the joint force package that had been built for the original mission allowed CINCUSACOM to rapidly modify the plan for UPHOLD DEMOCRACY, bypassing the forced entry and moving directly to democratic transition. Such a quick modification would have been much more difficult if the original plan had called for more traditional means of deploying forces, because more time would have been required to adjust airlift and sealift flows. Rapid force closure would not have been possible. Although the lessons learned from UPHOLD DEMOCRACY cannot be applied universally, the operations demonstrated the usefulness of joint force packaging.

ARMY NATIONAL GUARD ENHANCED READINESS BRIGADES

Question: Although 15 enhanced brigades in the Army National Guard are a critical element of the Clinton military strategy, the Army continues to experience major problems in adjusting its training strategy to meet this need.

Are these brigades fully integrated into your contingency scenario? Are you comfortable that the readiness levels of these brigades are adequate to be fully integrated into your contingency plans? If not, what improvements are needed?

Rear Admiral Fargo: The Army National Guard Enhanced Brigades (EBs) are designed to provide the strategic hedge against an adverse major regional conflict (MRC) in the two MRC scenario. They may be called upon to perform a variety of functions: reinforce, backfill, and/or augment Active Component (AC) divisions or corps. Additionally, the EBs may be required to provide rotational forces for protracted AC MRC deployments, and excursions are presently being evaluated to determine the efficacy of EB use in Operations Other Than War (OOTW).

With respect to contingency plan integration of the EBs, the EBs will be apportioned for deliberate planning to the Combatant Commanders, including USACOM, based upon guidance received from the Joint Strategic Capabilities Plan. The strategic needs of the warfighting Commanders in Chiefs (CINCs) will dictate which of the two MRCs and with which division or corps the EBs will be deployed following their post-mobilization training. The inherent characteristic of the EBs is wartime flexibility. Recognizing that the limited training time available to the Reserve Components (RC) requires focusing upon the most critical wartime training requirements, the United States Army's Forces Command (FORSCOM), the Army Component of ACOM, is committed to the critical training challenges posed by the EBs' 39 unit training days per year. FORSCOM, assisted by the Army's Training and Doctrine Command (TRADOC), is examining areas in gunnery efficiencies, simulations, increased maneuver and staff training, and concentration on core skills from individual through brigade levels. FORSCOM's Ground Forces Readiness Enhancement (GFRE) initiative should greatly enhance the

ARMY NATIONAL GUARD ENHANCED READINESS BRIGADES

AC's ability to train the EBs. Over 5,000 AC soldiers will be dedicated to this mission.

After various alternative training strategies have been evaluated, the most effective strategy (within constrained resources) will be institutionalized for all the EBs. The goal of an improved comprehensive pre-mobilization training strategy focusing upon dedicated AC-to-RC support will be to ensure that by Fiscal Year 1999, each EB's post-mobilization training phase will provide the capability for the unit to deploy in concert with Defense Planning Guidance at the highest level of readiness (C-1) in personnel, equipment readiness, and equipment on hand within 90 days after call-up. Prior to actual deployment, additional operational requirements may be identified by the gaining combatant commanders based upon an analysis of mission, enemy, terrain, time, and available troops (METT-T). Post-mobilization training may be expanded, as required, to train any additional tasks required by the employing CINC.

JOINT TRAINING, ANALYSIS AND SIMULATION CENTER

Question: Please describe the mission of the Joint Training, Analysis and Simulation Center and how does this contribute to readiness?

Rear Admiral Fargo: The U.S. Atlantic Command (USACOM) was established with a revised and expanded mission and force structure under a Unified Command Plan change of October 1, 1993. The forces of the Army's Forces Command (FORSCOM) and the Air Force's Air Combat Command (ACC) were on that date added to the Atlantic Fleet and Marine Forces Atlantic under the combatant command of the Commander in Chief, U. S. Atlantic Command (CINCUSACOM). Since that change, CINCUSACOM has been responsible for joint force integration, training and readiness for the nearly 80% percent of the nation's armed forces assigned to his command. In response to this mission, USACOM has inaugurated a broad program for the joint training, exercise and rehearsal of these forces for deployment anywhere in the world. A key element of this program is the Joint Training, Analysis and Simulation Center (JTASC).

JTASC, located in Suffolk, Virginia will host part of the USACOM Joint Training Directorate (J7). A variety of functions have been assigned to JTASC in support of the Atlantic Command's joint training, exercise and rehearsal program. The USACOM staff at JTASC will number initially 99 J7 military and DoD civilian employees (57 JTASC staff/42 joint doctrine training teams staff) supported by approximately 200 contractor personnel. These in turn will be integrated with the nearly 500 person staff of USACOM headquarters in Norfolk, 16 miles east of the Suffolk facility. The JTASC has reserved for its use nearly 200,000 square feet at that facility, one of the most modern, high technology structures under DoD control. USACOM is in the process of installing \$30 million of training, simulation, analysis and operational command, control, communications, computer and intelligence (C4I) systems at JTASC to support the wide variety of functions for which this facility will be a nationwide hub. Initial operational capability is expected to be reached in January of 1996.

Together, JTASC personnel and the facility will:

- provide support to academic training in joint doctrine and tactics, with deployable training teams of military experts and state-of-the-art multimedia systems for presenting and transmitting those courses to remote audiences.

- provide systems, operational and technical libraries and staff expertise to support joint operations planners and assist them in the simulation-based analysis of their plans.

- provide simulation support to joint, tactical-level field exercises all over the country, permitting selected participants such as air defense units to participate in distant exercises from home bases or ships at their piers.

- provide design, planning, scripting, simulation, control and analytical support to joint, operational-level command post exercises for senior commanders and staffs. The training audiences will include both Commanders of Joint Task Forces, normally flag and general officers at three star rank or below, and their immediate subordinate joint and service component commanders and staffs. JTASC will provide simulations of both the battlefield and the units in the field. The U.S. commanders and staffs will direct these forces against a simulated opposing force (OPFOR) chosen from among the nation's most likely opponents worldwide and commanded by JTASC personnel using the doctrine and tactics of such potential enemies. Most of the training audience participants and all of the response cells, who put the directives of these commanders into action in the simulations, will be at their home bases around the nation. Such command post exercises supported by the technologies and staff of JTASC promise to be superior in scope, flexibility and realism to large field

training exercises for the training of commanders and staffs at roughly 10% of the cost of such field exercises.

- provide for rehearsals of actual operations in simulation using the same methods and technologies employed in the exercise programs.

- provide for the introduction into the training and exercise programs of new combat and combat support systems nearing their initial operational capability. This will be accomplished through adjustments to both academic instruction and simulation support.

- provide statistical and subjective assessments of training, exercise and rehearsal programs, joint doctrine and tactics, force structures, joint readiness trends, and other issues. These assessments will be based upon both observations and data derived from the exercises and rehearsals conducted with JTASC support. JTASC will record and store both the simulations and operational C4I information generated by exercises into digital data bases for retrieval, replay and analysis in support of this program. These data will be matched with the subjective observations of the participants in producing assessments.

- provide the only Commander Joint Task Force (CJTF) command post and staff office facilities in the United States. These will be used by the CJTF for planning and execution of both exercises and rehearsals. The command post will be fully integrated with the CINC's command post in Norfolk and other regional CINCs worldwide. The CJTF and his staff will be supported on site by the training, simulation, library and analytical facilities and staff of JTASC, the rest of USACOM headquarters and the other major military headquarters and centers of excellence located in or near Tidewater.

- sponsor and host DoD Advanced Concept Technology Development (ACTD) programs - technology development efforts in both operational systems and training, analysis and simulation systems - managed by the Advanced Research Projects Agency (ARPA) and others.

- constantly improve the processes associated with training, analysis and simulation technologies to increase the value and reduce the overhead of this program.

The technologies and staff of JTASC promise substantially lower costs and improved quality in the joint training, exercise and rehearsal of the armed forces. This uniquely cost-effective program will serve to both increase and measure the readiness of those forces.

US-BASED FORCE READINESS

Question: As a force provider, what are your views as to the readiness of the forces provided to theater commanders?

Rear Admiral Fargo: Looking back at the past year, at events in Bosnia, Somalia, Rwanda, Haiti, the challenges in the Persian Gulf and Korea, coupled with the requirements that must be satisfied to maintain day to day readiness, it has been a difficult and demanding year. Yet what stands out most is the readiness of our forces to respond to a myriad of taskings around the globe and accomplish those missions with uniformly superb results. Are the forces ready? They have never been more ready!

Having said that, one must be cautious about the depth and sustainability of that readiness. First of all, the forces that typically have responded are America's "first to fight" forces. We are ever mindful that in this era of shrinking force structure, the ability to always get more forces is simply not there anymore. This is particularly true of certain "low density, high demand" force enablers such as AWACs, Aegis cruisers, MP companies, and elements of MAGTFs. Each time we commit forces to a contingency we must ensure that the remainder of the forces are not neglected -- they are the key to ensuring our national security in the event of two or multiple simultaneous contingencies. The tensions in SWA and Korea this past year are ample evidence that further force reductions or accepting less than current standards for mission ready forces jeopardizes our ability to influence peaceful outcomes to dynamic world events.

As the major Force Provider, we have continued to solidify close working relationships with each of the other Unified Commanders. Efforts to develop capabilities-based force packages to meet supported CINC requirements are ongoing and getting better with each deployment of forces. Development of the Joint Mission Essential Task Lists and conditions and standards by which to assess forces will improve this process even more in the near term. Today's forces are ready and USACOM is working hard to ensure even higher readiness will be the trademark of our military forces in the future.

RESERVES AND GUARD

Question: The DoD describes the adequacy and capabilities of the reserves as a needed enhancement to the existing force structure. What are your concerns regarding the reserves and what remedies would you propose to fix problems?

Rear Admiral Fargo: For expanded use of reserve components in contingencies, applicable policies, procedures, programs and regulations must support ready access to reserve forces when needed. Additionally, they must provide flexibility for the use of these forces and appropriate and adequate resources to accomplish required training. Three essential elements provide the focus for improving adequacy and capabilities of the reserves. They are:

- A process for identifying and validating CINC, Service and other Defense mission area requirements which may be appropriate for reserve component capabilities.

- Funding procedures and programs that provide maximum training dollars to meet additional requirements. Ensure the availability of adequate military personnel appropriations (MPA) for reserve component support of active component missions, and the availability of adequate reserve personnel appropriations (RPA) for reserve component support of reserve component missions.

- Flexible policies for the use of the reserve components in support of peacetime operations. Such policies would affect the duration of training, scheduling of training and transportation.

GUANTANAMO

Question: How is the effort at Guantanamo going? What are your personal views on the morale of the troops assigned there and the security conditions? What is your view of the notion of having civilian agencies take over the base support functions?

Rear Admiral Fargo: Our efforts at Guantanamo are going very well. Looking at the magnitude of our humanitarian efforts to house and feed the migrant community, our troops have done an exceptional job under trying conditions. Troop morale remains excellent, however the long term effects of performing humanitarian/caretaker type duties, may very well affect morale, and with it readiness. For the great predominance of our soldiers, sailors and marines, the duties we have asked them to perform on behalf of the migrants can often be repetitive and potentially frustrating for many reasons. Combine these with the realities of family separation, you can understand the challenges facing our young service members.

Security within the migrant camps remains very good. Disturbances have been minimal, but with a long, hot summer on the horizon, I fear we may experience an increase in these incidents over time. To alleviate this, we must continue our parole program, and even expand it beyond its present scope. The possibility of parole to the U.S. and third countries remains important for the predominance of migrants. We must not allow these programs to stagnate, but seek innovative ways to provide hope to the migrants through a viable parole program. With regard to the effort of having civilian agencies take over base support functions, we are pursuing initiatives to contract as many migrant support functions as possible. This is an important initiative and although we can't contract everything, we can provide relief for a majority of the current military force structure.

In the past, we have leveraged some of our force readiness by rotating CONUS based units into GTMO to provide support of migrant operations. Over time, the more we commit forces to conduct these operations, readiness of the force becomes degraded to some degree. If we can contract many of the non-military related jobs, we can free up a significant number of service members, and improve force readiness.

Question: Also, we have heard that much of the Haiti operation is being contracted-out to civilian companies. Do you see this sort of arrangement becoming more frequent? What are the advantages and disadvantages?

Rear Admiral Fargo: I think there are some significant advantages to this approach. As I stated earlier, by moving toward greater contractor provided support, you free the force to train and perform the functions that they are trained to do. This ultimately improves morale, and directly the readiness of the force.

Contractor provided support can also mean employment opportunities for either the local or migrant population. Clearly, an employer may wish to hire locals or migrants where possible, since the overhead cost of housing and feeding is already being met. They earn money and become productive in the support of the welfare of the community as a whole, and more importantly, it offers hope of a better future. Where possible, the use of locals or migrant labor is a win-win situation for all involved.

I see no real disadvantages to increasing contracted local or migrant support, if fully funded.

COUNTERDRUG EFFORT

Question: In your personal view, how is the counterdrug mission going? Is this a good use of military assets? How effective is the effort in relation to the resources spent?

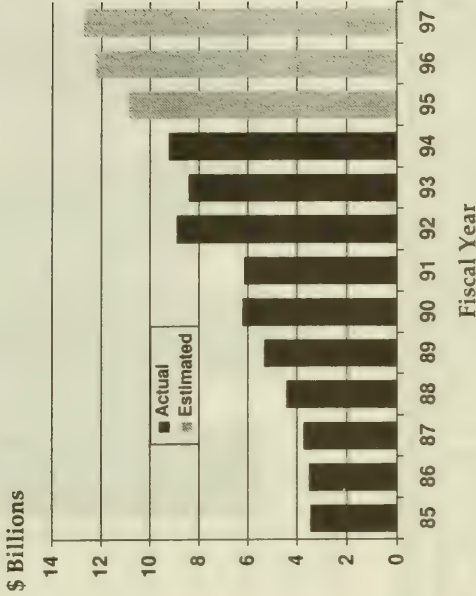
Rear Admiral Fargo: Department of Defense continues to make significant contributions to national and international counterdrug (CD) efforts. In both detection and monitoring and in support to Drug Law Enforcement, Department of Defense is making a difference. Although overall effectiveness of the Department of Defense CD efforts includes some subjective judgement, Department of Defense efforts have directly contributed to seizures of drugs, boats, and aircraft; supported and/or contributed to arrests; and generated counterdrug intelligence to a significant level.

In the Transit Zone, noted shifts in trafficker patterns are indicative of the effect Department of Defense efforts have had on transshipment operations - forcing traffickers to adjust their operation in response to the economic pressures of successful interdiction. Additionally, in 1993 Joint Task Force Four (now Joint Interagency Task Force East) contributed to the disruption of 170,381 kilograms (KGS) at an expenditure of 4321 ship steaming days and 27,100 flight hours in the AOR. In 1994 Joint Task Force Four/Joint Interagency Task Force East contributed to the disruption of 96,366 KGS at an expenditure of 2445 ship steaming days and 19,324 flight hours.

In the Arrival Zone, law enforcement requests for DoD support continue to increase - a direct reflection of DoD effectiveness and how Domestic Law Enforcement Agencies (DLEA) have come to rely on and value our unique capabilities and manpower. For example, during Fiscal Year 94, requests for intelligence analyst support increased 60% over Fiscal Year 93 and represented 25% of all the CD support FORSCOM provided to DLEA during Fiscal Year 94. Fiscal Year 95 requests for support are ahead of the Fiscal Year 94 pace. DoD is also working smarter and more efficiently with DLEA, resulting in more support for less money. These contributions increase the drug trafficker's cost of doing business and directly support the national counterdrug strategy. In addition, DoD has encouraged and fostered greater cooperation among the DLEAs, and, through intelligence analyst support, has assisted them in identify drug organizations, which have resulted in additional arrests and seizures. Finally, many of these operations offer significant training value for involved DoD personnel and units and is considered a worthwhile utilization of DoD assets.

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Real Property Maintenance Backlog of Maintenance and Repair*



Source: OSD O&M Overview, Published Annually
in Support of the President's Budget

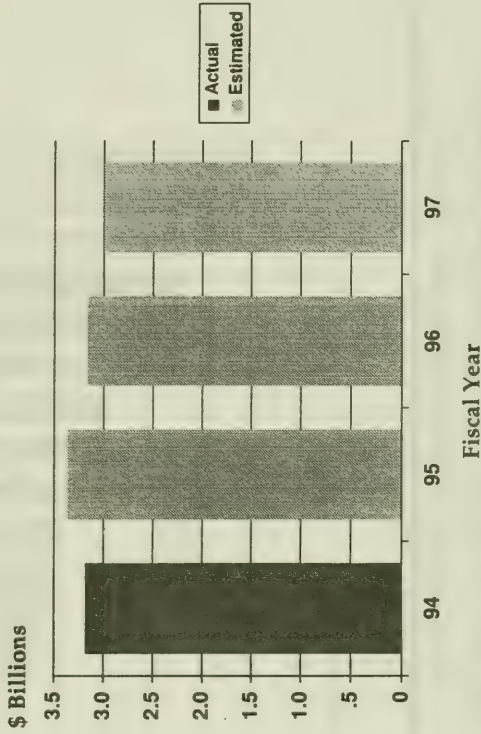
*O&M Funded Facilities Only (Excludes DBOF, RDT&E, Family
Housing, Prior Year Data not Normalized for PBOY Transfer.)

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Family Housing Maintenance Backlog of Deferred Maintenance and Repair



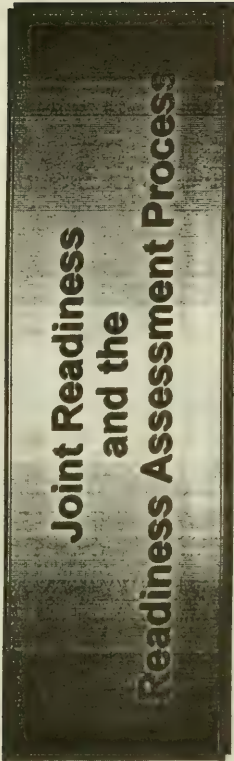
Source: Service Data

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The Challenge of Change



Joint Readiness and the Readiness Assessment Process

Admiral William A. Owens
Vice Chairman of the Joint Chiefs of Staff

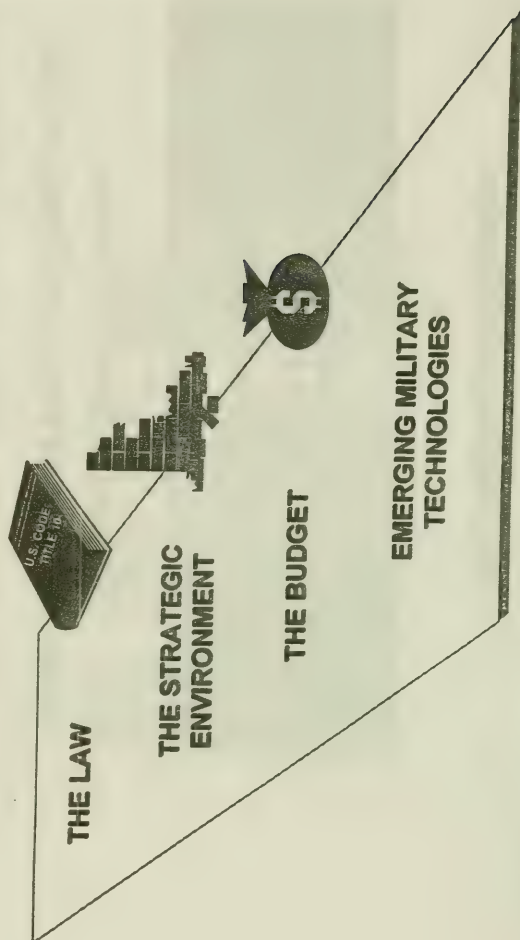
Briefing for
HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE

9 March 1995

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The Motivation for Change

Four Major Changes Compel a Fresh Perspective ...



Defense Reorganization Act of 1986

MAJOR CHANGES:

✓ ESTABLISHED CJCS AS PRINCIPAL MILITARY
ADVISOR TO NCA

✓ OPERATIONAL FORCES ASSIGNED TO CINCS

✓ CHAIRMAN DEVELOPS JOINT DOCTRINE, TRAINING
& EDUCATION

- CHAIRMAN ADVISES SECDEF ON REQUIREMENTS,
READINESS, PROGRAMS & BUDGETS

Implementing Change

CHAIRMAN ADVISES SECDEF ON REQUIREMENTS, READINESS, PROGRAMS & BUDGETS

✓ ASSESS MILITARY REQUIREMENTS FOR ACQUISITION
PROGRAMS

- ADVISE SECDEF ON JOINT READINESS STATUS
- ADVISE SECDEF ON REQUIREMENTS PRIORITIZATION
- SUBMIT ALTERNATIVE PROGRAM RECOMMENDATIONS &
BUDGET PROPOSALS

JROC ROLE EXPANDING TO MEET THE CHANGE

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HOW WE LOOK AT READINESS

CJCS
READY TO FIGHT

SERVICES
UNIT READINESS
- PEOPLE
- EQUIPMENT
- TRAINING
- ENABLERS

"TRADITIONAL READINESS"

CINCS
JOINT READINESS
- ABILITY TO INTEGRATE AND
SYNCHRONIZE FORCES
TO EXECUTE ASSIGNED MISSIONS

"THE JOINT PERSPECTIVE"

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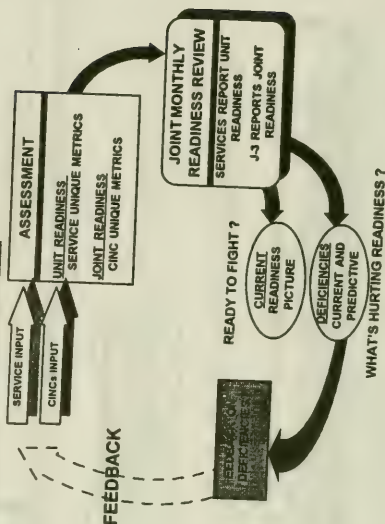
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JOINT MONTHLY READINESS REPORT PROCESS

PURPOSE: TO IDENTIFY AND ANALYZE CRITICAL DEFICIENCIES
THAT REDUCE OR PREVENT THE CINCS PERFORMANCE OF
ASSIGNED MISSIONS AND PROPOSE SOLUTIONS

FOCUS: CURRENT READINESS

- DEFINE
- MEASURE
- FIX



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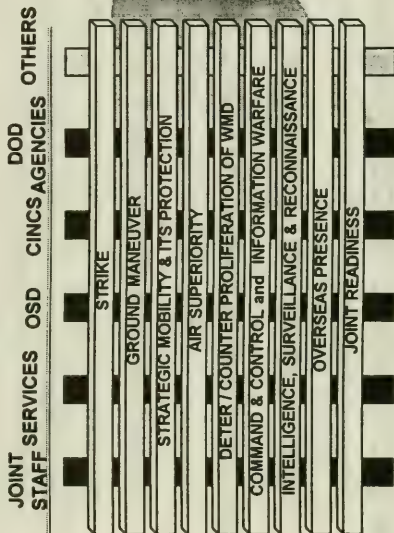
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CURRENT READINESS TO FIGHT

- **WE ARE READY TO EXECUTE THE NATIONAL STRATEGY**
 - Forward deployed and "first-to-fight" readiness is high
 - Additional unplanned contingencies increase near-term risk
- **CONTINUED READINESS TO FIGHT DEPENDS ON:**
 - Adequate / stable funding of readiness accounts
 - Commitment to a quality force (pay, QOL accounts, recruitment)
 - Investments in force enhancements (Strategic Mobility, PGMs)
 - Rapid restoration of funds and WRM resources expended for unplanned contingency operations

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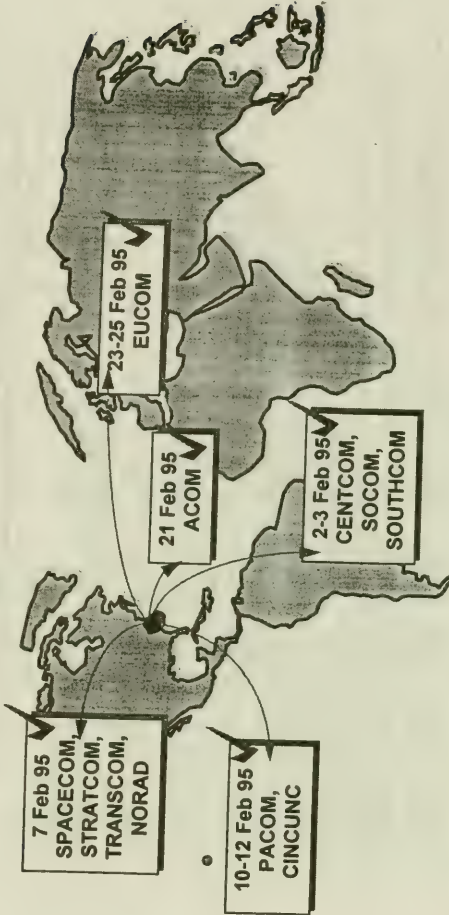
Joint Warfighting Capability Assessments



- INCLUSIVE EXAMINATION OF JOINT WARFIGHTING AREAS
- FOUR STAR MILITARY FORUM

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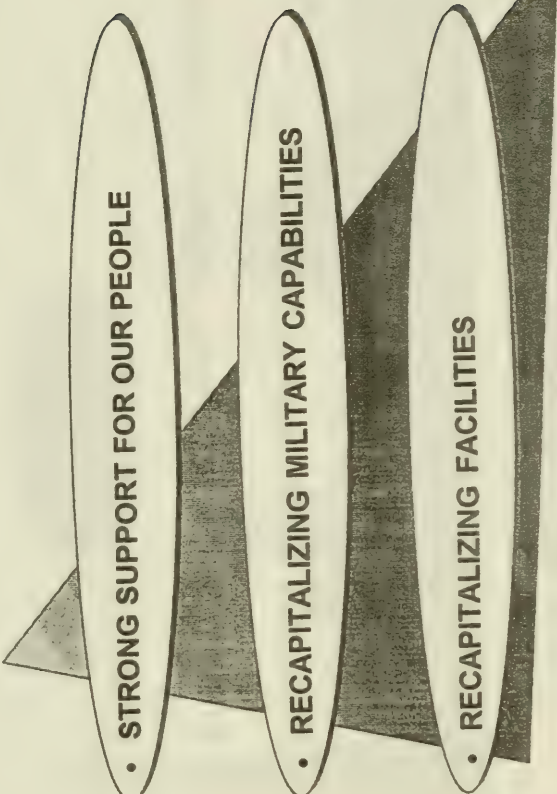
Interaction with CINCs



EMERGING VIEW OF JOINT WARFIGHTING REQUIREMENTS

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Unchanging Concerns



- STRONG SUPPORT FOR OUR PEOPLE

- RECAPITALIZING MILITARY CAPABILITIES

- RECAPITALIZING FACILITIES

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Our Most Important Resource

- THREE PRINCIPAL ELEMENTS TO SUPPORT OUR PEOPLE:
 - ADEQUATE & FAIR COMPENSATION
 - STEADY, DEPENDABLE LEVEL OF MEDICAL BENEFITS
 - STABLE RETIREMENT SYSTEM

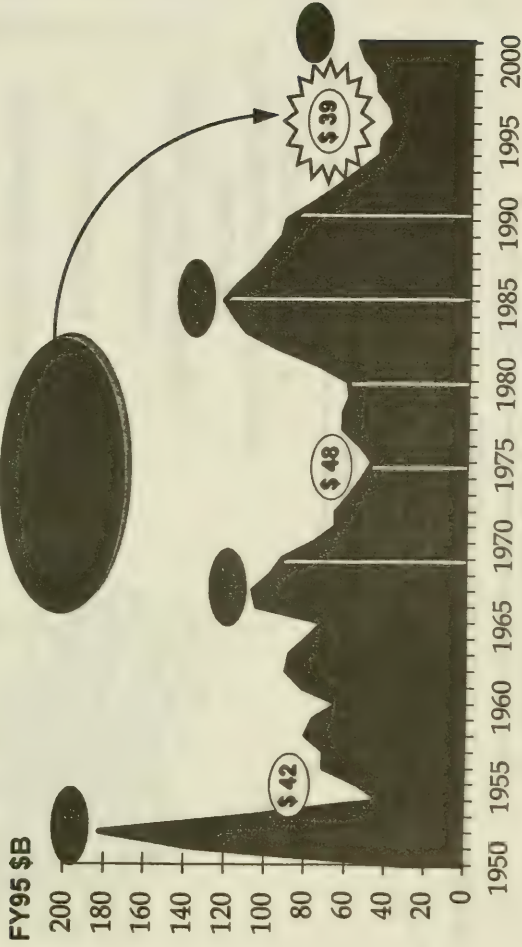
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FOUR STAR MILITARY LEADERSHIP IN AGREEMENT

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Procurement Trend



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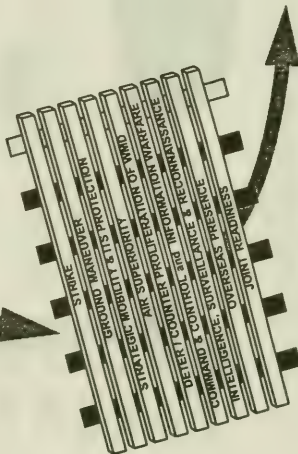
The Process Continues ...

WARFIGHTING CAPABILITIES ASSESSED:

- ACROSS SERVICE LINES
- FOCUS ON JOINT WARFIGHTING
- IDENTIFY CHANGE LEVERS

A VISION FOR JOINT
WARFIGHTING CAPABILITIES IS
EMERGING:

- DOMINANT BATTLESPACE
AWARENESS
- FULLY INTEGRATED C2
- SEAMLESS, ROBUST ISR
- PRECISION WEAPONS



CHAIRMAN'S FOCUS ... JOINT WARFIGHTING CAPABILITY

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[Whereupon, at 12:40 p.m., the subcommittee was adjourned.]

FORCE READINESS: CONCERNS, SOLUTIONS, AND INDICATORS

HOUSE OF REPRESENTATIVES,
COMMITTEE ON NATIONAL SECURITY,
MILITARY READINESS SUBCOMMITTEE,
Washington, DC, Thursday, March 16, 1995.

The subcommittee met, pursuant to call, at 10 a.m., in room 2212, Rayburn House Office Building, Hon. Herbert H. Bateman (chairman of the subcommittee) presiding.

STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, MILITARY READINESS SUBCOMMITTEE

Mr. BATEMAN. The subcommittee will please come to order.

This morning the Military Readiness Subcommittee continues its deliberations on the fiscal year 1996 defense budget. Today we focus on two issues: First, what efforts are being made to accurately and adequately measure, assess and monitor readiness. Readiness, as we have learned, is a complex issue. In addition to tank miles, flying hours and steaming days, there are many other factors which impact on overall readiness—personnel tempo, maintenance backlogs, morale, quality of life, base operations support, equipment modernization, recruiting and retention. Add to this the impact of unfunded contingency operations and the funding turbulence associated with such operations.

The traditional system for measuring readiness is inadequate. Its focus is narrow, it is too subjective, it is not consistently applied across the services, commands or units, and it can be misleading. Further, it has little predictive value for future force readiness. What is needed is a comprehensive readiness assessment system which is based on relevant and reliable indicators for measuring force readiness today and which can provide early warnings of future problems. In short, we need a reliable system that provides assurances that readiness is solid. The American people, including our military, expect no less, and we are committed to ensuring that they are not disappointed. I know that there are efforts underway to better assess readiness, and I look forward to hearing from all of our witnesses today on the status of those efforts.

Second, the other focus is on how the services are addressing readiness shortfalls experienced last year, and, more importantly, what actions are being taken to avoid their repetition.

As force structure is reduced and operational commitments increase, maintaining a high level of readiness across the force is critical. As we know, such readiness levels were not maintained in fiscal year 1994. Today's third panel of witnesses are responsible

for the training and readiness of the forces. We look forward to their testimony on the actions being taken to address the most immediate areas of concern and their views on what is needed to maintain required readiness levels in the future.

Today's witnesses on the first panel, include: Mark E. Gebicke, Director of Military Operations and Capabilities Issues for the GAO, and he is accompanied by Charles J. Bonanno and Ray S. Carroll, Jr.

The second panel consists of: The Honorable Edwin Dorn, Under Secretary of Defense for Personnel and Readiness, and we are delighted to have him with us, accompanied by Lou Finch, Deputy Under Secretary of Defense for Readiness.

The third panel consists of: Lt. Gen. Paul E. Blackwell, U.S. Army, Deputy Chief of Staff of the Army for Operations and Plans; Vice Adm. Charles J. Lopez, U.S. Navy, Chief of Staff for Resources, Warfare Requirements and Assessments; Lt. Gen. Arthur C. Blades, U.S. Marine Corps, Deputy Chief of Staff for Plans and Operations; and Lt. Gen. Joseph W. Ralston, U.S. Air Force, Deputy Chief of Staff for Plans and Operations.

I would now like to recognize my colleague from Virginia, Mr. Sisisky, the ranking member, for any opening statement he may have.

STATEMENT OF HON. NORMAN SISISKY, A REPRESENTATIVE FROM VIRGINIA, RANKING MINORITY MEMBER, MILITARY READINESS SUBCOMMITTEE

Mr. SISISKY. Thank you, Mr. Chairman. I would like to apologize to our guests for not having enough seats to be able to seat all of you. All the subcommittees are meeting today, and I can assure you that there are smaller rooms than this one.

I join with Subcommittee Chairman Bateman and welcome you to the hearing today. The retention of a force ready to execute our national military strategy is a shared goal. It is interesting to note that today's hearing moves us in the direction of looking not only at a snapshot of unit readiness, but also at a more comprehensive look at total military capability which goes beyond unit readiness. We will not only hear about how the DOD addressed the readiness problems experienced in fiscal year 1994 and the adjustments to the various systems to prevent such problems from recurring, but we also get to hear how the Department looks at a number of readiness metrics that provide insights into the total military capability.

It appears to me that much of the committee's debate about readiness has shifted to focus on the Department's ability to provide the structure and resources that will support future readiness. Your views are important to help us understand the DOD readiness structure and respond to the various force readiness indicators and reports that not only reflect current unit readiness, but also provide the earliest warning of potential readiness problems.

I look forward to your testimony today and your responses to our questions.

Mr. BATEMAN. Thank you, Mr. Sisisky.

Mr. Gebicke, if I could ask you to make your presentation.

STATEMENT OF MARK E. GEBICKE, DIRECTOR, MILITARY OPERATIONS AND CAPABILITIES ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY CHARLES J. BONANNO, ASSISTANT DIRECTOR, MILITARY OPERATIONS AND CAPABILITIES ISSUES, AND RAY S. CARROLL, JR., SENIOR EVALUATOR, NORFOLK REGIONAL OFFICE

Mr. GEBICKE. Thank you, Mr. Chairman and members of the subcommittee. We appreciate the opportunity to testify and give the results of our work on the DOD's current readiness evaluation system, and also to talk to you a little bit about some of the initiatives that DOD has underway to correct some of the shortcomings I will talk about this morning.

I have a prepared statement. I assume you will put that in the record. I will keep my remarks brief and summarize some of the high points.

This subcommittee, and others, have put the spotlight on readiness over the last few months, and necessarily so. If you think about what has happened in the last 8 years, there has been a change in the threat of the Soviet Union to the two MRC's. We have decided to significantly downsize our military. In fact, we are about 80 percent through that effort, and in 1989 we downsized our military service personnel by 33 percent, a significant cut. Also, we will downsize our civilian force associated with DOD about 27 percent.

The DOD budget has declined. If you look in terms of real purchasing power between 1987 and 1995, in 1995 dollars we are talking about a reduction of 30 percent. We are closing bases both here and abroad. We are probably not doing it as rapidly as we would like, but we are beginning to do that. And we are using our troops more often; we are using them in ways that probably 8 years ago we couldn't envision that we were going to use them, and we are using them in more joint operations, where it is very important that all services work together to effectively complete a mission.

All of these things have put a spotlight on readiness, and when you put a spotlight on readiness, you also put a spotlight on how we assess readiness, and that is what we are here to talk about today.

We looked at the readiness system that DOD has in place, called the Status of Resources and Training System, and it is the root of just about every system currently in place; and even those recently initiated—SORTS is the acronym—is at the root of many of these initiatives. SORTS works well and does what it was intended to do, but in today's national security environment it does not go far enough.

Why doesn't it go far enough? A system needs to be comprehensive and include all of the indicators to give you a good picture as to what your readiness is. SORTS does not do that. It needs to have predictive capability because readiness today is very important, but what your readiness might be a month or a year from now is equally important, and you might say, more important. The system needs to be as objective and as candid as it possibly can be because when you get that information you want to make sure that that information is accurate.

Finally, the system needs to take jointness into consideration; how can the services perform together to conduct a mission? DOD's indicators contain none of those four elements that I just described.

What we did in our work was, we did a Bottom-Up Review. We went out to 28 different commands and we said to those commands, are you maintaining other indicators that you don't typically report through SORTS? All said, yes, we maintain some indicators that are important for us to help determine our readiness. In fact, from the 28 commands we got over 650 different indicators that were used.

We did a lot of work with those indicators because, as you can imagine, when you ask the same question to 28 different commands you get a lot of similarities and duplications; and we went through a lot of groupings and regroupings. But in the end, we came up with 26 categories which contained about 113 indicators; and we went back to the commands and said, of those that you have reported, that you track here locally, tell us which ones are most critical to the comprehensiveness of the system, tell us which ones have predictive capability, and tell us about the qualities of the data that would be used in formulating those indicators. The services all did that for us. That information is contained in the report that we issued to the subcommittee last October.

Let me turn just for a moment to some of the initiatives that are underway in the DOD—and I know the other witnesses will be talking in more detail about them.

As you are probably aware, the JCS has a system in place now called the Joint Readiness System. It is actually a monthly process. I would characterize it as being scenario-based; in other words, various scenarios are created to determine what the mission would be, and then, using information from the services and the CINC's, they talk about how successful they can be in completing that mission and where the shortfalls might be. It was initiated in December, done monthly, so three sessions so far.

The OSD senior readiness oversight council also meets on a monthly basis, more with an emphasis on short-term, near-term readiness. It is primarily service driven.

Both of those efforts that I have talked about are predicated on SORTS, as well as additional information; and then the three services—the Army, Navy, and Air Force—also have initiatives underway uniquely tailored to each service.

The Air Force has pretty much abandoned one effort that they had underway, but they had a significant effort. All of that emphasis is positive. We think it is good, and certainly illustrates that the DOD is responding to the spotlight on readiness.

There is one cautionary note that we would offer at this time, Mr. Chairman, and that is, when you have a lot of people doing basically the same thing and no one is really overseeing everything that is being done, you have an opportunity for duplication or maybe not to be as efficient as you might otherwise be. Maybe there are some lessons that the Navy could pass along to the other services that would further the effort.

Right now, we don't see a focused effort. I would suggest that one group that possibly could bring some focus to all the activity that is underway would be the Office of the Under Secretary of Defense

for Personnel and Readiness. As I am sure you understand, that office was created just 2 years ago to oversee and to coordinate those efforts.

I will end my summarization with that, Mr. Chairman, and be happy to respond to any questions you or other members may have.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Readiness, Committee on National
Security, House of Representatives

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MILITARY READINESS

Improved Assessment Measures Are Evolving

Statement of Mark E. Gebicke, Director, Military Operations
and Capabilities Issues, National Security and International
Affairs Division



Mr. Chairman and Members of the Subcommittee:

During the past several years, military service chiefs of staff and commanders in chief (CINC) have expressed concerns about the effect on current and future military readiness of (1) the level of current military operations, (2) contingency operations, (3) the shifting of funds to support these operations, and (4) personnel turbulence.

Related to these concerns is a question about the ability of the Department of Defense's (DOD) readiness reporting system to provide a comprehensive assessment of overall readiness. Accordingly, Representative Spence, the then Ranking Minority Member of the House Committee on Armed Services, asked us to determine whether current indicators of readiness adequately reflect the many complex components that contribute to overall military readiness and whether there are readiness indicators that can predict positive or negative changes in readiness. Today, I plan to highlight key findings from our report¹ on these issues and some major DOD initiatives that seek to achieve a more comprehensive readiness assessment.

My comments are framed around four key points:

- The DOD indicators for measuring readiness provide valuable information, but this information is limited, is not always objective, and was never intended to provide

¹Military Readiness: DOD Needs to Develop a More Comprehensive Measurement System (GAO/NSIAD-95-29, Oct. 27, 1994).

the comprehensive assessment of readiness that has become increasingly important in today's national security environment.

- To supplement readiness data reported in DOD's system, we found that the military commands independently monitor numerous additional indicators, many of which are not only critical to a more comprehensive readiness assessment but also have some degree of predictive value.
- DOD has begun to incorporate into its readiness monitoring system some of these additional indicators; however, there is insufficient historical data about them to permit meaningful trend analyses at this time.
- DOD and the services have other important initiatives underway to improve readiness assessments; however, there is no focal point within DOD that oversees or coordinates these efforts.

DOD'S CURRENT APPROACH TO
MEASURING READINESS HAS LIMITATIONS

DOD's current system for reporting readiness to the Joint Chiefs of Staff (JCS) is the Status of Resources and Training System (SORTS). This system measures the extent to which individual service units possess the required resources and are trained to undertake their wartime missions. SORTS was established to provide the current status of specific elements considered essential to readiness assessments, that is, personnel and equipment on hand, equipment condition, and training of operating forces. SORTS' elements of measure, "C" ratings that range from C-1 (best) to C-4 (worst),² are probably the most frequently cited indicator of readiness in the military.

JCS and service officials told us that the measures of readiness in SORTS are no longer adequate in today's national security environment. Specifically, SORTS does not (1) address all the factors that JCS considers critical, (2) warn of impending decreases in readiness, and (3) provide data on joint readiness. In addition, SORTS includes subjective assessments of training proficiency. Let me elaborate on each of these items.

²There is also a C-5 rating that indicates that a unit is not ready because it is undergoing a reorganization or equipment upgrade.

SORTS does not provide information on several factors that, according to JCS, are critical to a comprehensive readiness assessment. Additional factors believed to be critical include mobility, operational tempo, morale, leadership, and training exercises.

Information reported under SORTS is a snapshot in time and does not predict impending changes. Units report readiness monthly or, for some units, upon a change of status. These reports provide commanders and JCS with status information only for that point in time. Commanders have stated that in today's environment of force reductions and increasing commitments, there is a need for indicators that can predict readiness changes.

SORTS does not provide data with which commanders can adequately assess joint readiness. The need for joint readiness information was demonstrated by the Persian Gulf War and reaffirmed by contingency operations in Somalia and Bosnia. Officials at four joint commands told us that SORTS, the primary source of readiness data, was inadequate for assessing joint readiness. Although JCS recently developed its first list of joint mission tasks, it has not developed the training conditions for conducting joint exercises and criteria for evaluating them. It may be several years before JCS completes these efforts.

Finally, some elements of SORTS are not based on objective data. The C-rating for training, for example, is based on a commander's subjective assessment of the

number of additional training days a unit needs to reach a C-1 status. This assessment may be based on any number of factors, including completion of required or scheduled training or personal observation. In addition, in the past, we have found that Army training assessments have not been reliable. For example, in 1991 we reported that training readiness assessments of active Army units may have been overstated.³ We reported that the information provided to higher commands and JCS was of limited value because the assessments (1) were based on training conducted primarily at home stations rather than on results of more realistic exercises conducted at combat training centers and (2) may not have adequately considered the effect that the loss of key personnel had on proficiency. Likewise in our reviews pertaining to the Persian Gulf War, we noted that readiness reports for Army support forces and National Guard combat forces were often inflated or unreliable.⁴

³Army Training: Evaluations of Units' Proficiency Are Not Always Reliable (GAO/NSIAD-91-72, Feb. 15, 1991).

⁴National Guard: Peacetime Training Did Not Adequately Prepare Combat Brigades for Gulf War (GAO/NSIAD-91-263, Sept. 24, 1991) and Operation Desert Storm: Army Had Difficulty Providing Adequate Active and Reserve Support Forces (GAO/NSIAD-92-67, Mar. 10, 1992).

GAO'S EFFORTS TO IDENTIFY
CRITICAL READINESS INDICATORS

Because of the limitations associated with DOD's traditional approach to measuring readiness, we sought to identify indicators that, together with SORTS information, could provide a more comprehensive readiness assessment.

To determine whether there were indicators being monitored in addition to SORTS, we visited 39 DOD agencies, including active and reserve service commands, defense civilian agencies, unified commands, and the Joint Staff. We found that 28 active and reserve commands were monitoring literally hundreds of indicators in addition to SORTS, but generally did not report them above the command level. Military commanders and outside defense experts agreed that many of the indicators were not only critical to a comprehensive readiness assessment at the unit level but also had some degree of predictive value regarding readiness changes within the services.

We compiled a list of over 650 indicators that the 28 commands were monitoring in addition to SORTS. To further refine these indicators, we asked the commands to rate the indicators in three areas: (1) the importance of the indicator for assessing readiness, (2) the degree of value the indicator has as a predictor of readiness change, and (3) the quality of the information the indicator provides.

The indicators that service officials told us were either critical or important to a more comprehensive assessment of readiness and that also have some predictive value are listed in attachment I. Six indicators--personnel deployability status, unit readiness and proficiency, operational tempo, weapon systems proficiency, funding, and unit and intermediate maintenance performance--were rated highest by at least one-half of the commands visited.

We asked the Defense Science Board Task Force on Readiness, which is composed of retired general officers from each military service, to examine the indicators the commands believed were most important. Task force members agreed with the commands' ratings and said that the indicators were an excellent beginning for developing a more comprehensive readiness measurement system.

To take advantage of our findings, we recommended that DOD, as part of an effort to develop a more comprehensive readiness system to be used DOD-wide, (1) review the indicators identified as being critical to predicting readiness and select the specific indicators most relevant to a more comprehensive readiness assessment and (2) develop criteria to evaluate the selected indicators and prescribe how often the indicators should be reported to supplement SORTS data.

As I will discuss later, DOD has completed the first of several steps that it plans to take to implement our recommendations.

AVAILABILITY OF DATA TO DETERMINE
READINESS TRENDS IS LIMITED

Related to the feature of predictive capability is the ability to conduct trend analyses based on the most important indicators. During our visits to the military commands, we noted an unevenness in the availability of historical data, depending on the indicator being monitored. More recently, we sought to obtain historical data for critical indicators monitored by the commands in an effort to identify readiness trends. However, the commands did not keep sufficient historical data to permit meaningful analyses.

We either visited or contacted all 28 commands included in our earlier study and asked them to provide us information on the availability of data since 1990--a period generally viewed by DOD as the apex of readiness--for indicators they had identified as critical to assessing readiness. In total, this involved 313 indicator groups (a group may comprise a number of individual indicators, e.g., the indicator "Morale" may include data on nonjudicial punishments administered, courts-martial, drug abuse, and divorce rates). Responses from these commands showed that data availability varied widely among the services, the commands, and the indicators themselves.

In total, the 28 commands told us that data dating back to 1990 was available for only 95 (30 percent) of the indicators. However, in many instances, commands that

reported having data back to 1990 stated that it was partial, meaning that some units had it for that period, some did not, or data was kept for some weapon systems but not for others.

Explanations for the lack of historical data were primarily that (1) there was no requirement to keep the data and (2) there was little or no interest in comparing the indicators over time.

DOD'S EFFORTS TO IMPROVE

READINESS ASSESSMENTS

Recognizing the limitations of SORTS and the need for more comprehensive readiness information, a number of DOD organizations have undertaken major efforts to improve readiness assessments. Included are the Office of the Undersecretary of Defense for Personnel and Readiness, JCS, the Air Force, the Army, and the Navy. We found, however, that no organization within DOD was overseeing or coordinating these efforts. As a result, we are concerned about duplication of effort and the possibility that DOD could develop systems that are incompatible. For example, initiatives being conducted by the Office of the Undersecretary of Defense for Personnel and Readiness, JCS, the Army, and Navy all have the same objective--to identify readiness indicators with predictive capability. Yet, no one in DOD is overseeing or coordinating these initiatives to avoid duplication or to ensure a sharing

of lessons learned. The Office of the Undersecretary of Defense for Personnel and Readiness, which was formed in 1993 to provide oversight and coordination of readiness initiatives, would seem to be a logical choice for this role.

I would like to highlight the key initiatives underway, one of which addresses the issues identified in our previous report.

Office of the Secretary of Defense

The first key initiative is the Senior Readiness Oversight Council. This Council, comprised of high-level military and civilian officials and co-chaired by the Deputy Secretary of Defense and the Vice Chairman of JCS, meets monthly to assess readiness status based on briefings given by each service chief of staff. The briefings--primarily based on SORTS data and other data such as recruiting, retention, and personnel tempo--cover a broad overview of readiness in the areas of personnel, equipment, and training. The focus of the Council's assessment has been on short-term readiness.

The second key initiative, which stems from recommendations made in our previous report, seeks to develop a more comprehensive readiness assessment system with predictive capability. Sponsored by the Office of the Undersecretary of Defense for Personnel and Readiness, this project's initial focus was on assessing the value of the

indicators we identified in terms of their potential for monitoring a critical aspect of current readiness and the opportunity to help shape the Future Years Defense Plan. This assessment, completed by a DOD contractor in October 1994, found that two-thirds of the indicators we identified had high or medium potential to achieve these two objectives. Key remaining steps include (1) identifying and assessing other potential indicators of readiness, (2) developing a list of the most useful indicators that will satisfy the needs of decisionmakers at the DOD level, (3) determining the availability of data that would be needed to monitor each of the selected indicators, and (4) establishing criteria to evaluate the selected indicators.

DOD officials told us that once they have completed an assessment of the indicators they plan to monitor, they will direct the services to keep the data required for trend analyses. Officials said they expect to begin developing trend lines based on selected indicators sometime during the summer of 1995.

JCS Initiatives

In June 1994, the Defense Science Board Task Force on Readiness issued its report to the Secretary of Defense on how to maintain readiness. The task force identified major shortcomings in assessing joint readiness and recommended improvements in the measurement of joint readiness. In response to the report, the Chairman of the

JCS established the Joint Readiness System, which became operational in December 1994.

The purpose of this system is to assess the readiness of forces to jointly execute operational plans for two nearly simultaneous major regional conflicts. The system includes a Joint Monthly Readiness Review, which requires each CINC to assess the readiness status of major combat and critical strategic support forces. Each month, JCS varies the scenarios on which the assessments are based. To assess unit readiness, the system uses SORTS data and data on the status of joint enablers such as the Airborne Warning and Control System and pre-positioned equipment. To assess joint readiness, the system makes assessments in eight additional areas, such as mobility, infrastructure, and special operations capability. These assessments are based on a mix of objective and subjective data. The system produces current and projected views of unit and joint readiness and a list of deficiencies that can be prioritized for possible remedy.

JCS is also seeking to improve readiness reporting under SORTS. Over the next few months, it plans to review all SORTS data elements, assess the continued need for each element, and make necessary modifications to ensure that SORTS includes only those elements that JCS and the services agree are necessary to evaluate readiness.

Service Initiatives

The Air Force, the Army, and the Navy have independently undertaken efforts to improve readiness assessments.

The Air Force, in late 1993, initiated a readiness assessment system called ULTRA, which used SORTS data as a starting point. ULTRA was to consider fiscal projections contained in the Five Year Defense Plan and predict readiness at varying levels of funding. It was to use computer models and compare budget data to model outcomes. According to Air Force officials, ULTRA was largely completed in January 1994, but remaining work has been suspended, or "put on the back burner." Air Force officials said that the leadership was not comfortable with certain assumptions and factors used in the model and believed that the system would produce misleading results. Although ULTRA has not been officially abandoned, it has a low priority within the Air Staff. Currently, the Air Force does not plan to pursue alternatives to ULTRA.

The Army has developed and partially implemented the Army Readiness Management System (ARMS), which allows unit readiness status to be projected for up to 2 years. ARMS is a result of integrating current and historical readiness information from SORTS with the Status Projection System--a system that draws future resource acquisition and distribution information from a number of Army databases. For example, by comparing a unit's reported equipment shortages with distribution

schedules, ARMS can forecast when those shortages will be alleviated and when the unit's readiness posture will be improved. Army officials told us that they expect ARMS to become more comprehensive as it gains access to additional Army databases.

The Navy is also developing a system--called Predictive Measures of Readiness--to supplement SORTS and provide a more comprehensive readiness assessment. Using this system, the Navy plans to assess overall readiness by examining seven broad measurement areas--personnel, training, aircraft, ships, munitions, installations, and operating tempo. Assessments in each of these areas will be based on SORTS data, coupled with other measures, some of which are objective, that the Navy believes have predictive value. Many of the predictive measures the Navy uses are those identified in our previous report. Navy officials told us that the system is still evolving and will probably expand over time.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions that you or Members of the Subcommittee may have.

Attachment I

Attachment I

Readiness Indicators Critical or Important to Predicting Readiness

Category/subcategory			Total commands in study by service				
			Air Force	Army	Navy	Marine Corps	Total
			5	6	10	7	28
	Indicator	Definition	Number of commands reporting indicators				
Personnel							
Personnel strength							
1	Personnel deployability status ^a	Data showing numbers of personnel by grade who are not deployable due to medical or dental problems, personnel hardship, or lack of essential training	1	4	9	6	20
2	Projected personnel trends	Comparisons of future personnel requirements with projected personnel availability	1	0	5	1	7
3	Crew manning ^a	Percentage of crews fully qualified, grades of crew members, and experience of crew members	2	3	0	0	5
4	Recruiting shortfalls	Number of personnel recruited and placed in units compared to recruiting goals	0	2	0	0	2
Personnel turbulence							
5	Personnel stability	Personnel turnover, attrition, and retention rates	0	4	4	5	13
6	Personnel tempo	Numbers of personnel employed to meet assigned missions or unit tasks	0	2	0	2	4
7	Borrowed manpower	Number of personnel (1) performing duties at bases in the continental United States that are not the same as required by their assigned Military Occupational Specialty and (2) not consistently training with their assigned units	0	3	1	0	4
8	Crew turnover ^a	Percentage of crews by weapon system type where crew members were transferred, replaced, or interchanged	11	2	2	0	4
Other							
9	Personnel morale	Subjective assessment based on indicators such as incidences of article 15a, court martial, drug/alcohol abuse, spouse/child abuse, reenlistment rates, unit climate assessments, days deployed per individual, pay comparability, promotion rates, and career advancement opportunities	0	3	5	3	11
Training							
10	Unit readiness and proficiency ^b	Inspections, evaluations, and exercises including Combat Training Center rotations used to assess how well the unit is prepared to perform its mission	3	6	6	11	19
11	Operational tempo	Level of operational and training activity against specific standards	4	6	4	4	18

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Readiness Indicators Critical or Important to Predicting Readiness

Category/subcategory			Total commands in study by service				
			Air Force	Army	Navy	Marine Corps	Total
			5	6	10	7	28
	Indicator	Definition	Number of commands reporting indicators				
Training (Continued)							
12	Weapon systems proficiency ^a	Certifications, qualifications, and other indicators of individual and crew proficiency in military operations and weapons employment	3	5	7	1	16
13	Funding	Current and projected funding available for operations, training, and maintenance in units	2	3	7	3	15
14	Completion of required and specialty training ^a	Numbers and/or percentages of personnel completing required or specialty training in a specific period	2	2	5	4	13
15	Commitments and deployments	Number and types of missions/commitments that (1) require all or part of a unit's resources or (2) do not provide an opportunity to train in all essential unit tasks	0	0	0	4	4
16	Accidents	Percentage of accidents in relation to standard measures, e.g., accidents per 100,000 flying hours	1	1	2	0	4
Logistics							
Equipment fill							
17	Deployed equipment	Numbers and percentages of equipment that are pre-positioned or deployed in relation to authorized equipment	0	0	0	2	2
18	Equipment distribution	Excess equipment made available by downsizing of the force compared to shortages or old equipment requiring replacement	0	0	0	2	2
Equipment condition							
19	Not mission capable rate	Percentages of not mission capable equipment due to supply, maintenance, or both	3	1	7	0	11
20	Equipment availability	Present and projected equipment availability rates	3	2	0	3	8
21	Fully mission capable rate for non-pacing equipment	Fully mission capable rates for equipment not reported in SORTS but nevertheless necessary for mission accomplishment	0	1	0	0	1
Equipment maintenance							
22	Unit and intermediate maintenance performance	Performance of unit level and intermediate maintenance activities compared to established standards. Indicators include (1) number of items in maintenance over a set number of days, (2) scheduling effectiveness, and (3) average number of items processed	3	4	6	4	17

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Readiness Indicators Critical or Important to Predicting Readiness

Category/subcategory			Total commands in study by service				
			Air Force	Army	Navy	Marine Corps	Total
			5	6	10	7	28
	Indicator	Definition	Number of commands reporting indicators				
Equipment maintenance (Continued)							
23	Maintenance backlog ^c	The number and dollar value of maintenance actions that were not accomplished when needed	0	3	3	0	6
24	Depot maintenance performance	Performance of depot level maintenance activities compared to established standards. Indicators include: (1) number of items in maintenance over a set number of days; (2) scheduling effectiveness; and (3) average number of items processed	1	0	0	11	3
Supply							
25	Supply performance	Performance of unit-level supply activities compared to established standards, such as percent of requests filled from on-hand stock or cannibalizations per 100 flying hours to identify inventory trends and needed items	3	2	3	1	9
26	Availability of ammunition and spares ^d	On-hand assets compared with prescribed or authorized levels	0	1	2	5	8

^aIndicators especially critical for the reserve components.

^bData should also be maintained on individuals with Combat Training Center experience.

^cReadiness Task Force commented that maintenance backlogs should be purged of irrelevant items to make this a more useful indicator.

^dReadiness Task Force commented that on-hand and programmed purchase of precision-guided munitions should be specifically monitored.

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Mr. BATEMAN. Thank you very much for your testimony.

Do either of your associates, Mr. Carroll or Mr. Bonanno, have comments?

Mr. GEBICKE. No, sir.

Mr. BATEMAN. In your investigation or your inquiries among the various military components, you indicate that you ultimately came to 26 categories of indicators, including 113 specific indicators. Give us a feel for what these were that weren't a part of the readiness assessments that had been done in the past.

Mr. GEBICKE. When we went back to the commands with those 26 indicators and asked them to assess how critical the information was to comprehensiveness, how predictive, I will give you 6 that at least 50 percent of those commands told us met those criteria. Those six are personnel deployment status, in other words, are people ready to be deployed, and again we are talking about categories of indicators so it is not necessarily one number but a category; second is unit readiness and proficiency; third, operational tempo; fourth, weapon systems proficiency; fifth, funding; and sixth is unit and intermediate maintenance performance. So within those six broad categories is where the consensus seemed to lie.

Mr. BATEMAN. These are the six generic indicators. It sounds to me like they are the indicators that everyone would have always looked for. But you say that is not the way it has been approached in the past?

Mr. GEBICKE. No.

Mr. CARROLL. These indicators are used at the unit levels or the local levels for the local level commanders to make assessments. That type of information, however, is kept at the local command and is not normally made a part of the SORTS system. So, while the commanders at the battalions and Army may or may not consider all that information, it is not forwarded up the chain.

Mr. BATEMAN. Well, it would seem to me that in the absence of that information being forwarded up the channel, up the channel isn't going to really know the status of readiness.

Mr. GEBICKE. There is another thing I should point out. As part of our study, we also asked the question, given the fact that you have told us this information is important to have, how far back do you have this information? If you are going to predict, having a historical basis helps determine what the trend may be.

In only about 30 percent of the indicators did the units say that we could go back as far as 1990 with that information, and even those that said they had some of it, said, we are going to have a lot of holes, like for weapon systems proficiency, we may have some of the information for some weapon systems but not have it for others.

We really embarked on a journey to try to build such a database, but we found that the information was not available to enable us to do it, so we have had to change horses in midstream and are taking another tack with regard to that.

Mr. BATEMAN. To his credit, Secretary Perry, with his leadership team, has focused on the problem of how do you assess and evaluate readiness. As you have indicated in your opening statement, there is a new reporting system that has been put in place and, to

date, three iterations of that have come forth. Have you looked at those?

Mr. GEBICKE. Not in depth. We understand how it works and, conceptually, we think it is a great idea. It still is in its infancy; and one of the questions we have that we cannot answer today is the extent to which the information used is subjective versus objective and is, therefore, opinion-based.

Again, that is one of the things we found in the SORTS system where there is some latitude in some of the indicators with commanders, and I don't know how much of that system is database. That would be the only cautionary note. It is more comprehensive than SORTS, predictive because it is scenario-driven, so they are looking at our ability to do things in the future, and both the services, as well as the CINC's, participate. So it has all the right elements. We think that is a step in the right direction.

Mr. BATEMAN. Wouldn't it be an appropriate corollary to the work you have already done to go back and look in some depth at these three issues?

Mr. GEBICKE. If this subcommittee wishes us to do that, I think that would be a reasonable corollary to our work, yes, sir.

Mr. BATEMAN. The committee would be interested, I am sure, in having you look at that and send us a memorandum as to the extent to which you feel that, based upon your study and evaluation of the way it used to be, whether they are now at the state of the art or whether you have suggestions as to further improvements.

Mr. GEBICKE. We will be glad to work with your staff to begin doing that, sir.

Mr. BATEMAN. Mr. Sisisky.

Mr. SISISKY. Yes. I notice you said, talked about the latitude of commanders and some is subjective; it is not a real science anyway, is it? Doesn't it have to be subjective to some degree?

Mr. GEBICKE. To some degree some elements have to be subjective, but there is an opportunity to use a lot of objective information. If you look at the current SORTS system, subjectivity comes into play in a couple of critical areas. One is in the assessment of training, the number of days it will take a commander to get his or her unit up to speed and ready to go. That is subjective, it is based on a lot of information that the commander has available.

We know from prior experience that those assessments can be exaggerated. We know from what happened in Desert Storm that some of those assessments on the number of training days necessary to get the units ready—when the units tried to get ready to go, experts came in and looked, from the active Army, of the Guard and found it would take up to three times longer than estimated. If you think about it, that is a critical factor because, how much training a unit needs might determine which unit you opt to send.

So a unit that the commander indicates can be ready in 20 to 25 days is probably going to get the nod over one where the commander says 40 or 50 days. The military is very can do, but at the same time, that positive attitude can somewhat color how long things realistically can take.

Another thing is that the overall assessment of the unit in terms of whether it is C-1, 2, 3, 4 or 5 is also a subjective factor that is predicated on all the information.

Mr. SISISKY. It is probably more misunderstood by the public. If you are going to deactivate a division, why have it at C-1 or 2?

We had Admiral Owens testify last week about his Joint Readiness Assessment. You said services aren't sharing what they are doing for readiness, but it seems to me this is the place that they could do it and report back to the Under Secretary, using the Vice Chiefs of the different services—and, certainly, they must sit in a room; if I know Admiral Owens, they sit there, maybe at five o'clock in the morning. But it just seems to me that this is a vehicle that you could use for the interservice exchange of ideas, and then back to the Under Secretary and tie it together. I agree that the Under Secretary ultimately would tie them together.

Mr. GEBICKE. That is a possibility. You are right. It isn't an integration that is taking place in the forum between the services and the CINC's. We were alluding to the fact that SORTS is really at the heart of all the assessments, that one system is in place, and to the extent that that system needs to be supplemented, there should be some consistency across the efforts that are taking place. That is what we would like to see.

OSD, as you probably know, has taken the results of our work—through a contractor, LMI, they have looked at the information that we have. We provided information to the contractor in much more detail than is in our finished report. We provided data tapes of information. They have processed that information and have rendered an opinion on the predictability and the comprehensiveness of some of that information. OSD is now in the process of looking at the information that is there to determine if there should be even more added to it; in other words, are there some factors that GAO didn't include that we might want to include.

Mr. SISISKY. That is a great day—that they agreed with GAO.

I yield back.

Mr. BATEMAN. We have a vote. My notion is that before we turn to Mr. Cunningham for questions we ought to go do that and come back just as quickly as we can get back.

Mr. SISISKY. This may be happening all morning; I give you that warning.

[Recess.]

Mr. BATEMAN. The gentleman from California, Mr. Cunningham.

Mr. CUNNINGHAM. Thank you, Mr. Chairman. We are going through a series of these hearings, and I think that Members on both sides of the aisle are learning a lot, not only from the services, but from the professionals that deal with it. I agree with Mr. Sisisky a lot, and having had a squadron myself, a lot of the readiness is—you can't put it down.

Let me give you an example. As a squadron commander, I get nuggets, the new kids on the block, into the squadron. Depending on the quality of the kids that I get, which is pretty good usually, but still there is a bell curve how I have to train each of those kids differently. Some need more training than others. The same thing in the enlisted and, the ability of those kids to be able to go out on a rapid deployment.

In the Air Force it is the same thing, or in the Army, or in any of the services, but the ability of them to land on a boat, to use heavy weapons, because usually it is with a lighter load; but all of

those things, a skipper looks at and says, I have a couple of kids who have problems at night or on the boat. That is kind of the warm and fuzzy that is not written down.

I think all services have done very well. The type of individual that I am getting into the U.S. military, when we did the drug testing for our kids—as the commanding officer, about 5 percent of my nonjudicial punishment, captain's mast was drug-related, whether it was alcohol, tardiness, a fight, getting busted for drugs or indebtedness; so what has helped is the services and their readiness of getting the kids who are quality, and I think that is a strong plus for readiness in that you don't have to deal as long with getting those kids trained.

You took away half of my questions because you listed your six indicators, and I said that is what it should be. If you are a squadron CO or an admiral or a general, then that is what you ought to be taking a look at.

But the things that I also view that are really tangent, is when we take an extension in Somalia that we pull people away from their families, that affects family life and morale. When we go to Haiti, and then we have our kids, the type of training that they get is not conducive. We even have folks who want to put military on the border, but we have to train to specific missions, and I don't think we can do that. When we go on peacekeeping missions, I also think the type of training that keeps us ready to fight wars is degraded.

I look at BRAC. When we go to Somalia and Haiti, and we get involved in Bosnia and that OPTEMPO, those dollars are sucked away from our training and you lose, even though we go back with a supplemental and the services say, if we don't get that supplemental we are dead readiness-wise, and I believe that. The Secretaries have done a pretty good job, but that breach of time in which they lose that training is critical. I would hope that, with the GAO, with the services, and with the Secretary, when BRAC comes up that you all stand united because, in many cases, you have got an Air Force general in there. I was a Navy pilot, but he is okay; he is not a bean counter.

Mr. SISISKY. So are you.

Mr. CUNNINGHAM. But all of these factors, and especially the degradation of training in between, I have heard Norm and the chairman of our own committee saying, we need to meet that. But with BRAC, I really feel that we can't do it here in Congress. I realize that, but I think the strength that we need and how you can help us to help you and the services is that when you come up and make such mistakes—I ended up with a lot more jobs in my district—but I still disagree with some of the things they put there because of readiness, because I care about the kids. You stand united saying, we can't put up with this or the extensions without getting reimbursed for it right away.

Or the BRAC's, we are not funding BRAC, and this is in the overhead of our military services. They are buying plywood to make buildings. They are not making the moves—for example, the marines coming down from El Toro to Miramar; they should be in place, using the range training, instead of scrapping around and carrying that overhead.

Those are the kinds of things I think are very tangible, because those affect morale, too, and the uncertainty of the wives who have jobs because they are trying to keep their kids in school. Mr. Secretary, with family nutrition—and I thank you for your comments earlier—I have heard wives say, you are going to Fallon; I am sorry, Charlie, you are going alone. You don't think that doesn't affect readiness, that it is on the mind of those kids?

I want to thank you for what you are doing and taking a look at this, as well as the services, because if there is anything irrelevant doing in this country today in a time when we have cut forces—in this Member's opinion, way below what we can afford to meet our national security needs—I think what you are doing is the most valuable thing we have going now; and I want to thank you.

Mr. BATEMAN. The gentleman from Texas, Mr. Edwards.

Mr. EDWARDS. Thank you, Mr. Chairman.

I would like to ask a question. In your evaluations, would you conclude that it is very difficult for a commander at any level, from platoon to division, to say his unit is not totally capable and ready to fight? I can understand that someone who wants to climb the ladder of promotion doesn't take great pride in saying, my unit isn't ready to fight, and if that is a problem, are you confident that we can build a system with enough safeguards and counterbalances to deal with that problem?

Mr. GEBICKE. You raise a very interesting question and there is probably not a real simple answer to it. I would say there probably is more candidness with regard to the assessments that are made today than there probably was 15 or 20 years ago, or even 10 years ago. I don't think the fear factor—the fact that I am responsible for having this unit ready and, therefore, if I have to put down anything less than we are supposed to be, that is a mark against me as a commander—we don't sense that that is the problem today that it was before. So I think the assessments today are much more candid.

You do have that positive can-do attitude, and that can somewhat impact on how you see things. You are an optimist as opposed to a pessimist or a realist. I don't think we could ever build a system that could take subjectivity completely out of it. I don't think we should try; I think the opinion of the commander is very valuable.

Mr. EDWARDS. Thank you.

Thank you, Mr. Chairman.

Mr. BATEMAN. The gentleman from Texas, Mr. Tejeda.

Mr. TEJEDA. No questions at this time.

Mr. BATEMAN. Mr. Scarborough.

Mr. SCARBOROUGH. No questions.

Mr. BATEMAN. Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Chairman. I have no questions.

Mr. BATEMAN. Thank you very much for coming today and appearing before us.

[The following questions were submitted for the record:]

Question 1. Your October 1994 report on readiness indicators stated that there are a number of valid indicators used by unit commanders in the various Services.

Would these indicators be usable at higher command levels? Is it feasible or desirable to expand SORTS to include large numbers of these indicators.

Response. A number of indicators identified in our October 1994 report would be useful to higher command levels. In fact, many of them are already used at the service headquarters level to assess readiness, particularly in preparation for the Joint Chiefs of Staff (JCS) Joint Monthly Readiness Review which was initiated in December 1994. Examples of the indicators in use are operational readiness inspection results, retention and recruiting statistics, and mission capable rates by aircraft type. These indicators are used to supplement information reported under the Status of Resources and Training System (SORTS).

Recently, JCS undertook a review of the data elements currently reported in SORTS, and plans to consider revisions to those elements at a joint service conference in May of this year. The results of this conference may have some bearing on the question of whether additional readiness indicators should be reported under an expanded SORTS or under a new readiness reporting system, of which SORTS would be only a part. In any event, we believe this is a matter that should be decided by the Department of Defense (DOD).

Question 2. It is our understanding that there is a significant lag time between the time a unit is reporting readiness difficulties and the time the senior leadership is informed and acts. Is there a need for more expedited notification to senior military leadership to ensure timely remedial action?

Response. We are not aware of a significant delay in notifying senior military officials of a unit's readiness problems. Although we have not evaluated the timeliness of SORTS reports, SORTS regulations and procedures generally call for units to report their status monthly, and certain units, for example, those in a deployed status, are required to report immediately if their readiness status changes. Such changes are normally communicated electronically to service headquarters and to JCS. Nevertheless, even though the timeliness of readiness reporting may not be a problem, the fact remains that by the time a unit recognizes and reports degraded readiness, a problem already exists; hence emphasis should be placed on indicators that could provide warning of impending changes.

Question 3. In order to increase the comfort level of Congress on military readiness, does Congress need to require that it be notified of major readiness problems as they are identified? If so, what is your personal view on how this process could work?

Response. We believe that the key to increasing the comfort level of Congress on the state of military readiness is the establishment of a readiness measurement system in the Department of Defense that assesses all factors that the JCS believes are critical, is objective, and has some predictive capability. Such a system would permit Congress to ask questions about readiness based on specific indicators for which there is consensus about their importance. DOD has a number of initiatives underway that are aimed towards developing a more comprehensive and objective measurement system. However, until such a system is in place, we believe that DOD could modify their assessment currently made by the services and the commanders in chief during the JCS Joint Monthly Readiness Review, and use it to provide information on the state of readiness to the Congress. Presently, these reviews afford the most comprehensive assessment of service and joint readiness.

Question 4. Each service maintains an IG operation at a cost of hundreds of millions of dollars to review and inspect the armed services on a wide range of issues. Is there an opportunity to make this structure perform a more active oversight role in assessing readiness?

Response. We believe that the commanders of military units should be responsible and held accountable for assessing the readiness status of their units. However, it may be desirable for some service IGs to play a more active role in this area.

We believe that Operational Readiness Inspections conducted by the Air Force IG could serve as a model for an expanded IG role. These inspections provide extensive and substantive information on a unit's readiness, including an assessment of the unit's ability to accomplish its mission. These no-notice inspections, conducted by IG personnel, require units to demonstrate the ability to accomplish expected wartime tasks for a sustained time period. Inspection results are detailed in a formal assessment that is sent through the chain of command.

To conduct inspections similar to Air Force Operational Readiness Inspections, the other services' IGs would probably have to trade off making inspections of other issues. We do not have a basis to judge the potential merits of such tradeoffs.

Mr. CUNNINGHAM. Could I make one statement?

When I told my Air Force joke, I also want to remind you that I had Air Force fighter pilots sitting over top of me keeping the VC off me when I was shot down over Vietnam, so it is all relative.

Mr. BATEMAN. We are all getting very ecumenical.

Our next witness who we look forward to hearing from is the Honorable Edwin Dorn, Under Secretary of Defense for Personnel and Readiness. Welcome, Mr. Secretary, please proceed.

STATEMENT OF HON. EDWIN DORN, UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS, U.S. DEPARTMENT OF DEFENSE, ACCOMPANIED BY LOU FINCH, DEPUTY UNDER SECRETARY OF DEFENSE FOR READINESS

Mr. DORN. Mr. Chairman, Mr. Sisisky, and members of the committee, thank you very much for inviting me to talk about the state of our readiness, our plans for maintaining readiness, and our concerns. I appreciate, Mr. Chairman, your earlier introduction of Lou Finch, who is the first person in the Office of the Secretary of Defense to have Readiness in his title, as do I, and perhaps I should begin by talking about why we have this kind of title, why an Under Secretary of Defense for Personnel and Readiness. I think it is because the belief is that the best way to ensure readiness is to take care of people.

In the late 1970's, the force was characterized as "hollow" in large part because the quality of the people had declined. We weren't attracting very good people, we weren't training them rigorously, and we weren't watching out for their well-being. We have learned from that experience, and we are determined not to repeat it. I will extract some parts of my formal statement to call attention to a few points.

Let me summarize where we are on readiness. I would like to start with a chart that is probably familiar to you and to other members of this committee because Admiral Owens, the Vice Chairman of the Joint Chiefs, has used it on previous occasions. The four graphs depict the four services—the Army, the Air Force, the Navy, and the Marine Corps—and without going into detail, let me summarize the general message which is that our rapid deploying and our forward deployed forces are at a high level of readiness and that the overall readiness of our forces has been acceptable and consistent over the past decade. At any given time, of course, we can find pockets in the force that are less than fully ready. Indeed, portions of our force oscillate through different levels of readiness depending on training cycles. But in the main, we have maintained readiness.

In addition to statistical evidence on that point, we also have two sources of evidence. One is the extraordinary performance of our forces during recent contingency operations and the other is the judgments of our military leaders.

Chart 2 indicates one of the keys to readiness and one of the reasons we put personnel and readiness together. It is the quality of the people we are bringing into the force. On this chart, the bars indicate the number or the percentage of people who score in the upper half of our aptitude categories on the qualification test, the AFQT. The line across the top indicates the percentage of new recruits who are high school graduates.

In summary, last year was the third best year in the history of the All-Volunteer Force in terms of the overall quality of our recruits, around 95 percent high school graduates, more than 70 percent in the upper half of those aptitude categories. The results look pretty good this year due to additional resources that Congress has provided us.

We watch recruiting pretty closely, as we watch other ingredients of personnel readiness, because we need to make some adjustments on occasion. The most succinct way to describe our current situation is as follows: Our forces are ready and our 1996 budget proposal will enable us to keep those forces ready if—and this is a big if—we receive a supplemental appropriation to pay for the unanticipated and unbudgeted costs of contingency operations.

Mr. Chairman, you and other members of this committee have spoken about that supplemental. I would like to say a bit more if I may.

Chart 3 is a map depicting some of our unplanned contingencies during fiscal year 1994. In addition to foreign operations in Bosnia, Iraq, Somalia, Haiti, Cuba, Rwanda, and Korea, our military forces also helped out in domestic emergencies such as the California earthquake and the western forest fires. The administration requested supplemental appropriations to pay for those contingencies in fiscal year 1994 totaling about \$1.9 billion, and Congress responded. For a variety of reasons, however, there was a lag between the time our units actually spent the money and the time they were reimbursed. In order to avoid overdrawing their accounts, some units had to cancel training, or reduce maintenance, or stop buying spare parts. One result was that by the fall of 1994, three of our later-deploying units were experiencing a slip in readiness.

It is very important that we not repeat that experience in fiscal year 1995. We are now projecting \$2.6 billion in contingency costs this year, and we have submitted a supplemental to cover them. We want to thank this committee for acting promptly, and the House more broadly, for acting promptly on our request. Unfortunately, this matter has not yet been settled and unless both Houses of Congress address the matter very soon I am afraid units again will have to start cancelling their training, they will have to curtail maintenance, and they will have to stop buying spare parts. If that happens, readiness will deteriorate. The Department's senior civilian and military leaders are very concerned about this.

Mr. Cunningham, I appreciate your mentioning it.

I would like to offer for the record two letters Mr. Chairman, one cosigned by Secretary Perry and General Shalikashvili, which was sent to the chairman of the House Appropriations Committee; the other signed by Deputy Secretary Deutch and sent to the chairman of the Senate Appropriations Committee. Both letters thank Congress for considering our supplemental request, but both letters also raise two issues.

[The following information was received for the record:]

THE SECRETARY OF DEFENSE,
Washington, DC, March 15, 1995.

Hon. ROBERT L. LIVINGSTON,
Chairman, Committee on Appropriations, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Department appreciates the prompt attention you have given the FY 1995 Readiness Supplemental. Its passage is essential because of its direct effect on the readiness of our forces. The Department is now diverting funds from readiness-related activities (unit training, depot maintenance, and mission critical spare part purchases) planned for later in the year. If the Supplemental is approved soon, the Services can recover from these diversions. However, if supplemental funding is delayed beyond the end of March, it will foreclose the options now being use to protect readiness. Many diversions will no longer be recoverable and will translate into lost readiness building opportunities (e.g. foregone unit training and missed maintenance availabilities).

Another matter of grave concern to the Department is consideration of the emergency nature of the Supplemental. Emergency authority was included in the Budget Enforcement Act of 1990 to provide financing without penalty for unanticipated, priority requirements such as those contained in this Supplemental. The Department is willing to offset a portion of the supplemental, but a requirement to offset the full amount will do unnecessary damage to important technology and modernization programs. In the strongest terms, we ask that you not insist on full offsets for the Supplemental appropriation.

Identical letters have been sent to the Ranking Democrat of the House Appropriations Committee, and Chairman and Ranking Democrat of the Senate Appropriations Committee.

Sincerely,

JOHN M. SHALIKASHVILI,
Chairman, Joint Chiefs of Staff.
WILLIAM J. PERRY,
Secretary of Defense.

THE DEPUTY SECRETARY OF DEFENSE,
Washington, DC, March 7, 1995

Hon. TED STEVENS,
Chairman, Appropriations Committee, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: Following up on our discussion today, we welcome Senate consideration of the defense supplemental appropriations to finance unfunded contingency operations of the Department. As I pointed out, however, the Department is very concerned that the Senate Appropriations Committee has dropped the emergency designation for the supplemental and is offsetting both budget authority and outlays with rescissions.

The President decided that a portion of the supplemental could be offset with rescissions, but determined that the bulk of it merits emergency action by the Congress. The decision by the Appropriations Committee to offset the full supplemental has two adverse implications. First, it forces the Department to stop important programs and divert the funding to the contingencies. We sincerely appreciate the Committee's rejection of the House decisions to cut the Cooperative Threat Reduction program and to scale back reductions to the Technology Reinvestment Program. Nonetheless, full offsetting of the supplemental necessitates unfortunate cuts in other meritorious programs.

Second, the rescission diverts funds that we need for a reprogramming to cover other must-pay bills. Some of the rescinded funds are no longer needed, but we plan to reprogram those funds to cover critical must-pay bills. At this point the Department has over \$800 million of these must-pay bills. Losing those acceptable reprogramming sources will force us to cut defense programs that are truly needed by the Department. We will soon submit this reprogramming to the Congress to cover these must-pay bills, and I anticipate difficulty securing Congressional approval of the sources as a consequence of this rescission.

I would ask that the Congressional defense leaders work with us to restore the emergency designation for the supplemental, either during floor action on the supplemental or in conference with the House.

Sincerely,

JOHN DEUTCH.

Mr. DORN. One is our urgent need to get the supplemental. The second concern is the importance of treating the supplemental as an emergency. Absent the emergency designation, all of the funds granted through the supplemental will be derived from rescissions and the Department will pay for the contingency operations by sacrificing other important programs.

Finally, let me say a bit about the way we track readiness issues. I will begin by saying that I appreciated the GAO report, and my colleague Lou Finch and I have appreciated a very close, cooperative, and constructive relationship with the GAO during the past year, as together we have been trying to learn more about readiness and figure out how we can track it and predict it better.

Let me walk through a process beginning with the Defense Planning Guidance, which is usually the beginning of our budgeting process. We write that guidance in the Office of the Under Secretary of Defense for Personnel and Readiness; in fact, Mr. Finch writes that guidance.

Two years ago the Secretary published language in the Defense Planning Guidance stipulating that the services would fund readiness even if it meant sacrificing other priorities. That stipulation has been repeated in subsequent Defense Planning Guidances.

Now, when the services submit their budget, we review them in concert with the services and with the joint staff to ensure that readiness is adequately funded. Later on in the planning and budgeting process, the senior military and civilian leaders of the Department meet with the Secretary and go over, in considerable detail, that budget, and always the focus is on whether or not readiness is adequately funded.

Since last fall, as Mr. Gebicke mentioned, we have used the Senior Readiness Oversight Council to track readiness monthly. That forum is chaired by the Deputy Secretary, cochaired by Admiral Owens. It includes the service chiefs, the service Under Secretaries, the DOD Comptroller and myself. But I should mention that that meeting, at which we look at unit readiness from the service perspective and joint readiness from the CINC perspective, represents the culmination of a process which begins with units submitting their SORTS data through the chain of command to the chiefs of the services, and also includes discussions between Admiral Owens and the unified and specified commanders.

Mr. Finch and the four gentlemen sitting to my left, the four DCS/OPS, participate in those 5 a.m. meetings that you alluded to, Mr. Chairman, where Admiral Owens begins to pull all of this information together. Our role in this is to serve as a catalyst and a coordinator, and sometimes as a clearinghouse and as a conduit for information. When we do that, of course, we are mindful that the services have the legal obligation under title X to man, train, and equip the force. The services take that responsibility very seriously. They are the producers and managers of readiness. We are advisers to the Secretary. We are also mindful during that process of the responsibilities of the Chairman of the Joint Chiefs of Staff and of the unified and specified commanders of the CINC's.

In conclusion, Mr. Chairman, let me reiterate three points. First, the force is ready today. Second, the force will remain at its current high level of readiness if, and only if, we can work effectively with Congress to finance contingencies in a timely fashion. And third, we are making progress within the Department to measure and manage readiness more effectively.

Thank you for your time, and I am eager to receive your suggestions.

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SUBCOMMITTEE ON READINESS

Statement of

The Honorable Edwin Dorn

**Under Secretary of Defense
for
Personnel and Readiness**

Before the Committee on National Security

Subcommittee on Readiness

United States House of Representatives

March 16, 1995

FOR OFFICIAL USE ONLY
UNTIL RELEASED BY THE HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS

Mr. Chairman, Congressman Sisisky, distinguished members of the Subcommittee, thank you for the opportunity to discuss the readiness of our Armed Forces. I am particularly honored to come before this body, knowing its history. While there are now many new students of readiness, we are well aware that this Subcommittee recognized long ago the need to give special attention to the readiness of our forces, and has studied it for years.

I would like to cover three themes: first to assure you that today's forces are highly ready; second, to discuss the challenges to readiness that we must collectively meet if we are to keep our forces ready; and third, to explain the steps the Department has taken to watch over its readiness responsibilities.

Today's Force is Ready

Today's force has:

High readiness. As Figure 1 below indicates, the readiness of both our "first-to-fight" forces and our forces overall rose in the 1980s and has stayed at these levels throughout the 1990s. While the readiness levels of specific units may fluctuate, overall the readiness of U.S. forces today remains at the the high levels of the recent past.

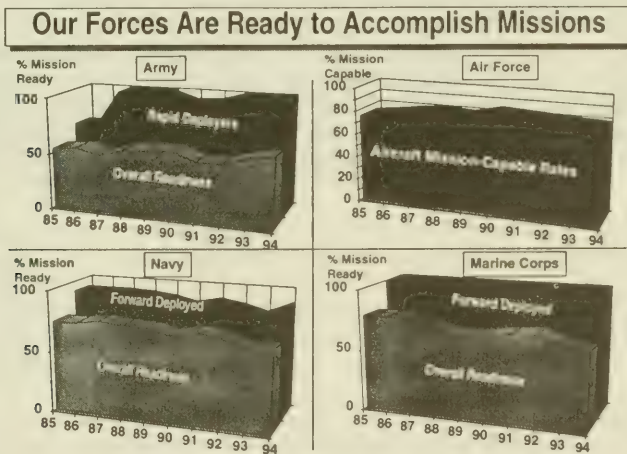


Figure 1. Service Readiness Trends (by fiscal year)

Solid performance. In the end, the best test of whether a force is ready is how that force performs. Over the last few years, our forces did everything we asked, and did it well. From chasing Saddam Hussein's forces back from Kuwait's borders, to aiding the suffering people of Rwanda, to helping restore democracy in Haiti, our forces were ready when we called on them.

High-quality people. Our men and women in uniform know no rival. Indeed, in terms of education and experience, today's force is of higher quality than the pre-drawdown force. The President's military pay and quality-of-life initiatives, announced in December, will help keep readiness high by putting people first.

Strong financial backing. Three times President Clinton has increased the Defense Department's budget to ensure readiness. Three times he has requested supplemental appropriations, and recently he asked for a fourth, all to keep our forces ready to fight.

Challenges to Keeping a Ready Force

For the future, there are two critical ingredients we need to keep our force ready: people and money. The challenges we face involve ensuring that we put together good plans that will supply these ingredients, and that we watch closely over these plans to make sure they stay on course as they're carried out.

With regard to the first ingredient -- people -- today we have the most skilled men and women ever to wear the uniform of this or any other country. Figure 2 illustrates this point. Fiscal year 1994 was the third-best year ever for recruit quality. A full 94 percent of new recruits were high school graduates. This is far above the 60-percent level we had in 1974. We are far, far away from the hollow-force days of the past.

Recruit Quality Remains High

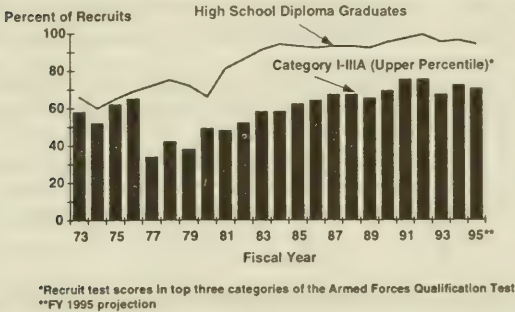


Figure 2. Quality of Recruits, 1973-1995

To continue to attract and keep good people, we have a four-part approach:

First, we need to communicate -- to advertise aggressively to America's youth the personal rewards and tangible benefits of service to their country. To make this possible, Congress has boosted our advertising budgets by about 25 percent over the last two years, and our FY 1996 budget continues this emphasis.

Second, we need to improve incentives to join the military so we can attract quality recruits who might otherwise be drawn to opportunities presented by an increasingly healthy economy. To do this, we've increased funding for this year's recruitment incentive packages by more than \$30 million over last year's.

Third, we need to provide good pay. To do this, we've proposed to Congress that we increase the size of our military pay raises to the maximum extent allowed by law.

Fourth, we need to ensure good quality of life for our military members and their families. To do this, President Clinton announced in December a multibillion-dollar quality-of-life enhancement package.

With regard to the second ingredient -- money -- we are filling in readiness holes that we've discovered in past budgets. We found that fully funding our so-called OPTEMPO accounts, which provide money to train our units, wasn't enough if other areas crucial to readiness were underfunded. In that regard, we have put special emphasis on the

adequacy of funding in readiness support programs, especially those in the operation and maintenance account. As a result of this increased emphasis, both the fiscal year 1995 and 1996 budgets, in the judgment of the Joint Chiefs of Staff and senior civilian leaders in the Department, will provide sufficient funds for readiness under one very important condition: *that we receive timely funding for unbudgeted contingency operations.*

As you know, last year's experience brought home the importance of timely supplementals for readiness. As Figure 3 illustrates, we needed an additional \$1.9 billion above our planned budget to support our contingency operations last fiscal year. The cash flow shortages that resulted from the reimbursement process for these operations caused the readiness of some of our units to decline. While the readiness of these units is well on the way to recovery, we need a new approach to funding unplanned contingencies.

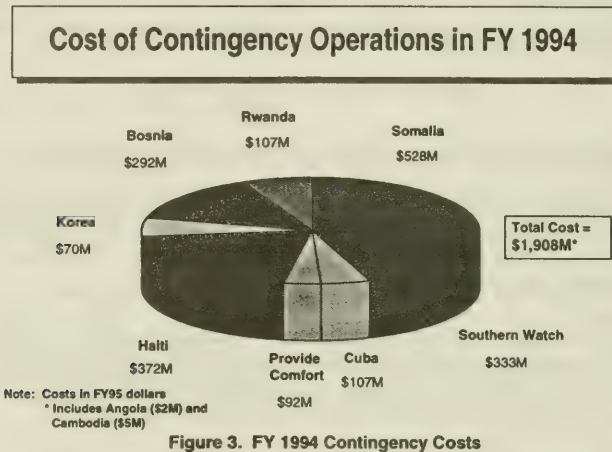


Figure 3. FY 1994 Contingency Costs

The approach we are pursuing is a two-part strategy.

First, we've requested early in the fiscal year additional money to fund contingency operations, and asked Congress for timely approval. As you know, we've requested supplemental appropriations of \$2.6 billion to cover the costs of contingency operations this fiscal year. Our request is moving along in both the House and Senate, but we still need approval before the beginning of April if we're to avoid having to cut back training -- and thus lowering the readiness of units -- toward the end of the year.

Second, we are seeking congressional approval for a Readiness Preservation Authority. While prompt approval of a supplemental request will greatly reduce the possibility of such sharp readiness declines this fiscal year, the supplemental alone may not be sufficient. If, in pursuing our security interests, we were to engage in unplanned operations beyond those now anticipated, and if those operations occurred in the later part of the fiscal year, we still could suffer a decline in readiness. No matter how quickly we request, and the Congress provides, supplemental appropriations to cover these added expenses, short-term cash-flow deficits would occur -- to the detriment of readiness.

The Readiness Preservation Authority we are requesting is designed to avoid such problems by allowing the Department to provide funding, in addition to already approved appropriations, under certain restrictive conditions. These conditions would limit using this authority to only the last two quarters of the fiscal year, and then only for activities related directly to readiness. Further, the funds used would have to be reimbursed in a supplemental appropriation. With the addition of this new authority, plus prompt action on our FY 1995 supplemental request, we are confident that the cash-flow problems which triggered the decline in readiness late last fiscal year will not be repeated.

Watching Over Readiness

Having good plans for the key readiness ingredients of people and money is essential. It isn't, however, enough. The reality is that we can't predict with precision either where and how our forces will be used, or the exact effects of turbulence in our force caused by the defense drawdown. Therefore, we need to watch over the execution of our readiness plans with care. We need better indicators of readiness, as well as more effective means of assessing and reporting them if we are to keep readiness on course.

To this end, the Department is engaged in several initiatives. They include:

- **Senior Readiness Oversight Council** focus on current readiness. Late last year, the Deputy Secretary of Defense asked the Chiefs of Staff of the Services to report monthly to this Council, which comprises the Department's senior military and civilian leadership, on the readiness of their forces today and a year into the future. He also asked the Vice Chairman of the Joint Chiefs of Staff to provide a report on the joint readiness of the force using inputs from our field commanders -- the commanders-in-chief of our unified commands.
- **Chairman's Readiness System.** At the direction of the Chairman, the Joint Staff is overseeing the development of a system to pull together the pieces of information on current readiness, which are spread throughout the Department, to give an overall picture of the readiness of our forces to fight jointly in carrying out our military

strategy. As part of this readiness system, the Vice Chairman of the Joint Chiefs of Staff now convenes monthly meetings to receive and assess in-depth reports on the current and near-term readiness of the services and the CINCs.

- **Predictive Methods for Readiness.** We have several initiatives in progress to develop methods to improve our ability to predict future readiness, based on the basic ingredients of people and money.
- **Readiness Indicators.** We also have several activities underway that are designed to improve the indicators we use to assess readiness. These include cooperative work with the GAO on studies, which were initiated by this committee, of readiness indicators.

Conclusion

Please permit me to conclude with a brief summary of where I believe we stand on readiness.

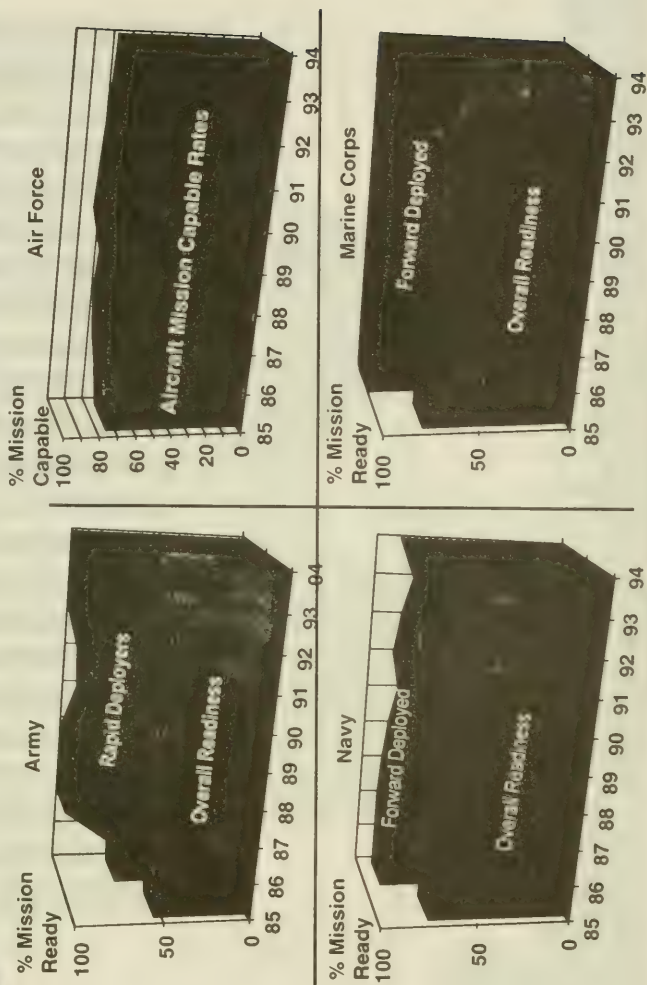
While we face several challenges, overall our force is highly ready. Our force today is ready to fight -- ready to carry out our strategy.

To keep our force ready in the future, we face some tough challenges. We must continue to attract and keep good people. We must ensure that our budgets have the right financial resources allocated to the right places and that, as unplanned contingencies crop up, we get timely supplemental additions to those budgets. We also must have in place the means to watch over readiness so we can spot potential problems early and make quick corrections.

Finally, in all of these activities, we must take into consideration the need for balance between our near-, mid-, and long-term readiness needs. Long-term readiness is influenced most by modernization of military equipment. The technological advantage enjoyed by U.S. forces in the past remains crucial in any conflict. We are on the threshold of a new phase of modernization that will sustain the quality of the force over the long term. In that regard, procurement authority requested for FY 2001 is projected to be 47 percent higher than the \$39.4 billion requested for procurement in FY 1996. This increased funding for modernization will maintain the technological superiority of our forces.

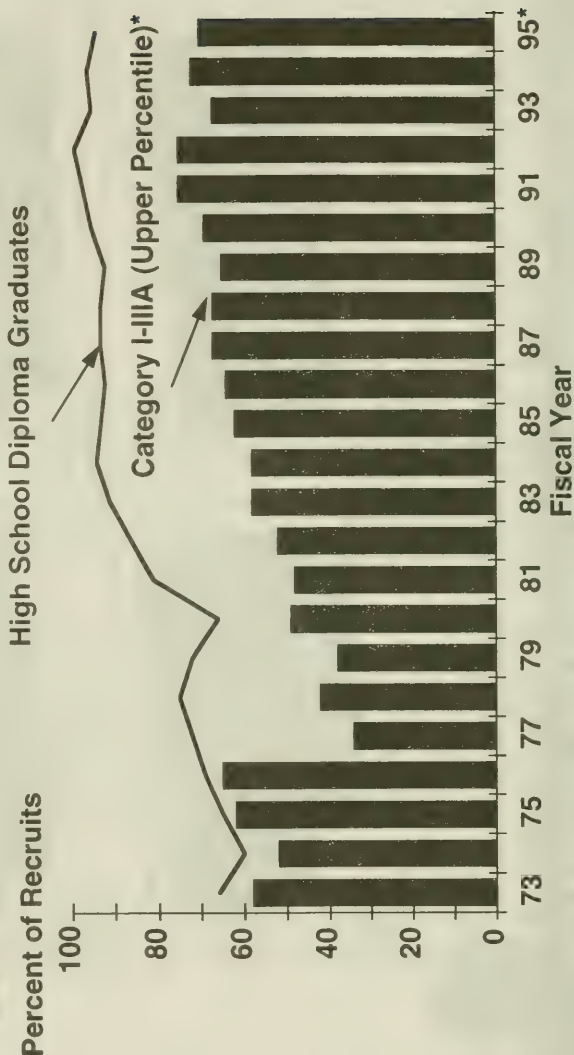
The Department of Defense has a range of programs and initiatives to confront these challenges. My colleagues in the Department and I commend them for your consideration, and look forward to your reactions and suggestions for improvement.

Our Forces Are Ready to Accomplish Missions



Service Readiness Trends (By Fiscal Year)

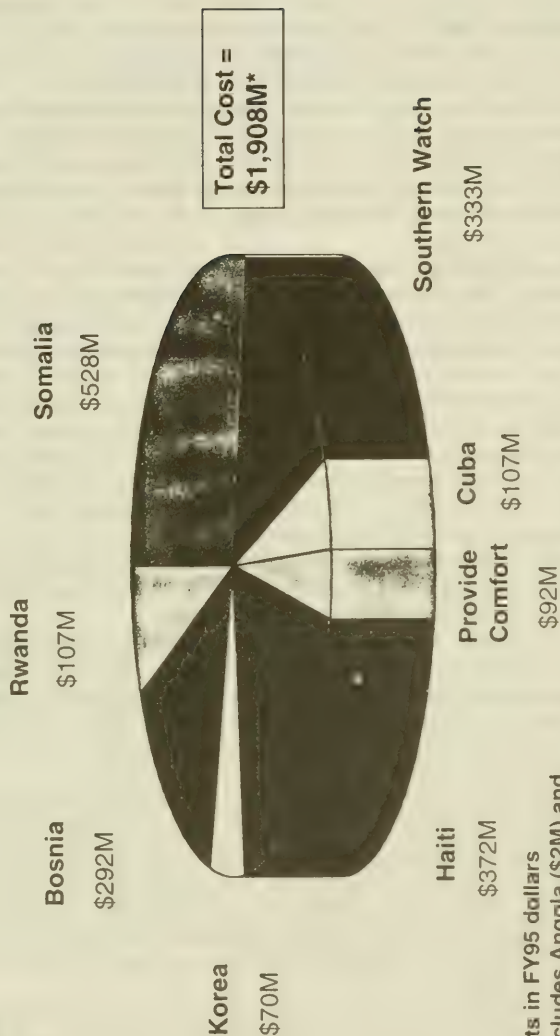
Recruit Quality Remains High



*Recruit test scores in top three categories; FY 1995 projected.

Quality of Recruits, 1973-1995

Cost of Contingency Operations in FY 1994



Note: Costs in FY95 dollars
 * Includes Angola (\$2M) and Cambodia (\$5M)

FY 1994 Contingency Costs

Mr. BATEMAN. Thank you very much, Mr. Secretary. We appreciate your being here, and your entire written statement will be made a part of the record.

One of the things that I have found troublesome, based upon the response that I have gotten to some questions, is the way we immediately pay for unforeseen contingencies. Basically, what comes through to me is a picture sort of like this:

The contingency arises; the command authority, the Joint Chiefs, task the appropriate military response. It happens to be a response that is largely executed, say, by the Atlantic Fleet. They salute and go off and do it, and then they have to find the funds to pay for it, at least early on, and hope that somebody is going to give them the money back.

Appreciating the fact that you can't do these things instantaneously, if you are tasked to do something and to do it immediately, it does seem to me that we are compartmentalizing the financial management decisions by components of the force or even to the extent it is broadened at each service level. It would occur to me that when the unforeseen contingency arises and the tasking has been done, someone should be projecting the cost of executing the task and then someone at the OSD level ought to be looking at all the accounts from which moneys might be drawn with the least impact upon readiness and the least turbulence and identify those sources as the bill payer.

Am I wrong in my view that largely it is something that is done by the unit, or ultimately their branch of service if it is something that is largely done by one branch?

Mr. DORN. I think that is an accurate description, Mr. Chairman.

I would add the following, that when it becomes clear that a major component commander cannot absorb those costs that information is then sent up to the chain. The Chief of Service then re-allocates—to the extent he has authority to reallocate—that burden across commands.

This is, of course, one of the things that happened last year with the three divisions. The three divisions that began reporting a decline in readiness were not the three divisions that were engaged in the contingencies; those were later-deploying divisions, and the reason they were reporting declines in readiness was that the Army had decided to shift resources away from those later-deploying divisions so that the units engaged could be fully ready and fully funded.

Mr. BATEMAN. I am sure you see the problem, and I think we need to look for better ways institutionally, systemically to manage unforeseen contingencies. We are going to have them. I think history has proven that we are going to have them, and we need to manage them in the best possible manner. I am not one of those who is paranoid about the less-than-desirable level of readiness in the three divisions which are not rapidly deploying divisions. You can cure that problem, but you can minimize its existence by better financial management of the problems, and I would certainly suggest and would like to have some input as to the best way to implement this. We talk so much about jointness and joint operations, and indeed we have them, but I am not seeing this in the perspective when it comes to who is going to be the bill payer, that it is

being done from a joint point of view; that is, the OSD budgetary picture, as opposed to falling on each of the various branches of the service or even commands.

Mr. DORN. I think we are talking about two sets of issues, one having to do with the way these costs are allocated across elements within the Department. The second question has to do with the source of the funds in the first place, and that causes us to engage the Congress in a discussion over how we can work out a system to ensure timely reimbursement for supplementals. And beyond that, there are structural problems that make it very difficult for us to obtain supplementals later on in the year; the congressional calendar does not permit that. A couple of years ago, for example, Mr. Sisisky proposed a contingency fund.

Our comptroller, John Hamre, has proposed an alternative called a Readiness Preservation Authority. We are eager, and I believe Mr. Hamre is coming before this committee next week, to talk about ways in which we can ensure timely reimbursement for contingencies.

Mr. BATEMAN. I appreciate those observations, and you are right; we have a problem that we have not resolved yet as to how we can establish a contingency fund with the appropriate reservations and strings that still would not leave it without utility as a contingency fund.

But above and beyond that, I think there is the financial management problem that can be addressed, and would be helpful independently of whether we can find the right way to deal with the contingencies.

I will cease at this time in order to give my colleagues an opportunity for some questions. Then I am sure I will have more.

Mr. SISISKY. Thank you, Mr. Chairman. You have touched on a primary point, because I am worried if some way the supplemental is disapproved or it is only partially approved and if the approval does not result in an increase in the top line of the budget and some combinations of the above, we have got to do something to find something to do away with it.

As I understand it, because of the Appropriations Act, we have to find a way—you have a problem of reprogramming and other things. I will tell this committee that to me it is a significant thing. I think we can put controls on it that nobody can just do anything they want to do, but at least give them the latitude of being able to move and shift money, because we can't predict that an outbreak of anything is going to happen in the first quarter of the year. If it happens in the last quarter, we are in serious trouble.

That is what I was going to ask you, about financial contingencies.

I will yield back the balance of my time.

Mr. BATEMAN. The gentleman from California, Mr. Cunningham.

Mr. CUNNINGHAM. Thank you, Mr. Chairman.

Mr. Secretary, can we go into a different area? Do you remember who Capt. Frank Alt was, who wrote a report post-Vietnam? He is the captain who was charged with determining why DOD was faring so poorly in the early stages of Vietnam. He came out with a list of recommendations. Some were the establishment for all

services of the adversary squadrons and the Navy fighter weapons school.

Early on in Vietnam the kill ratio for the Air Force and Navy was 1 to 1, maybe 2 to 1, in some cases. After those adversary squadrons were established we went to a 12-to-1 kill ratio. That was a big jump in readiness and ability to do the job.

Today, because of cuts, the \$177 billion we are going through, those adversary services are going away. I know that the Air Force and the Navy are trying to fly F-16's, F-18's, trying to do what we can do piecemeal, but that core training, in my opinion, well I wish your office would look at it because I think it is going to degrade our readiness in the future. I know at times you want more F-15's, more F-22's, but when you look at it, I think it is critical.

Mr. DORN. Mr. Finch, among other things, also takes a look on behalf of the Secretary at training and at the way we use various devices, including simulations, to improve our training proficiency. I don't know whether you want to address a question to him at this time.

Mr. CUNNINGHAM. Are there any things in the future in the aircraft mode for protecting or increasing—for example, Top Gun lost all of their F-16's.

Mr. FINCH. The principle you raise is a very important one. I think your experience is common with virtually everyone else in the Department; there is a necessity to do good solid training before you arrive at the day when you may engage in combat. Clearly, that training is done in a variety of ways.

I will speak personally, that having the squadron approach be deemphasized is something that perhaps is worthy of review. But at the same time, as you point out, there are a number of other programs that give the type of training that is important for effective air-to-air combat, not only live and interservice interaction, but also—

Mr. CUNNINGHAM. I would say the same thing is true with using tanks and whatever it is that you have to train with, that you need that type of adversary training. I think that, of all the things we do, that best prepares our kids to face the future of combat.

Mr. Secretary, looking at the cuts we have gone through and GAO coming out with a \$150 billion short of the Bottom-Up Review which, in many of our opinions, is still too low—but will help us when we have things like a 361-percent increase in nondefense spending out of the DOD budget. Can your office help us put a foot down and say that if we want to maintain readiness, we need to put a stop to these kinds of expenditures?

Mr. DORN. Absolutely.

May I make two points about that? No. 1, as you know, Secretary Perry has gone on record as disputing that figure.

Mr. CUNNINGHAM. Regardless of what the figure is, will you put your foot down?

Mr. DORN. Yes, sir.

No. 2, we believe that the budget we submitted does not contain irrelevant expenditures.

Mr. BATEMAN. The gentleman from Virginia, Mr. Pickett.

Mr. PICKETT. Thank you, Mr. Chairman.

Mr. Secretary, good morning, I want to go back to this issue of funding because it troubles me the way that we handle the issue of the so-called contingencies. For example, let's take what is going on today in Guantanamo.

We have heard testimony before this committee at previous hearings that it is costing \$1 million a day for the operation there. If—and this is a big if—the supplemental appropriation is approved, then the payment for that activity up through September 30 is going to be included in the supplemental. Who says that that operation is going to stop on September 30?

Mr. DORN. Mr. Pickett, I was just in Guantanamo on Sunday, and you have put your finger on a very difficult problem. We have 24,000 Cuban migrants there who are—

Mr. PICKETT. No, my followup question is, Why didn't the Department put a request in the budget that you sent over asking for funding for that for 1996?

Mr. DORN. Because, by definition, this is an unpredictable level of expense.

Mr. PICKETT. Why is it unpredictable when it is ongoing and there is no exit strategy?

Mr. DORN. It is certainly our hope that we can resolve it by the end of this fiscal year.

Mr. PICKETT. Is that any way to—

Mr. DORN. It is exceedingly difficult over a multiyear period to anticipate contingencies. That is why our only device right now for dealing with them is supplemental funding.

Mr. PICKETT. I am not so sure that is accurate. If you have an ongoing operation, as the Guantanamo operation is, without an exit strategy—there is no exit strategy—then I think it is reasonable and prudent to plan for that operation to continue after September 30, 1995, and you should request money to fund it. If the Congress decides that the money should not be appropriated, then that is their responsibility. But if the obligation is there and you don't ask for it, then you have got some responsibility in this process.

I think the Department ought to ask for funding of operations that are ongoing because when it is a fixed, ongoing operation, in my mind, it is no longer contingent, it is a reality; and I think that the Department should ask for money to fund these kinds of operations when they are ongoing.

The other point, I think, was made earlier about the source of the funding in the supplemental. It appears that at least one option for the supplemental is to fund the entire amount through rescissions and other portions of the DOD budget so there would be no increase in the top line. If there is no increase in the top line, it is merely a huge reprogramming orchestrated over here. What impact is that going to have on readiness?

Mr. DORN. It would be very difficult for us to absorb that \$2.6 billion shift in funds. Clearly, the budget we put together was very tight to begin with. We think it was well balanced as it regards funding for short-term and, if you will, long-term readiness.

It would be exceedingly difficult for us to simply shift those funds around without some deleterious effect on the defense program. This is one of the reasons that Secretary Perry, General Shalikashvili, and Secretary Deutch have expressed so strongly in

writing their concerns about the rescission. They believe very strongly that at least a portion of this money needs to be treated on an emergency basis. We can find some money, but finding the entire amount would be extraordinarily disruptive.

Mr. PICKETT. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Mr. BATEMAN. If the committee would indulge the chairman, I would like to follow up along the lines of that discussion about the supplemental.

The Cuban contingency arose, and we began the implementation of it during calendar year 1994. It impacts the 1995 budget; the supplemental request is supplemental to the 1995 budget.

Mr. DORN. That is correct, sir.

Mr. BATEMAN. The 1996 budget will impact 1995 after October 1.

Mr. DORN. That is correct.

Mr. BATEMAN. We don't have a strategy for how we are going to terminate that \$1 million a day Guantanamo operation.

Mr. DORN. I cannot speak to the policy aspects of this, and I feel at a bit of a disadvantage talking specifically to the monetary aspects of this except to confirm that this is a troubling situation.

Mr. BATEMAN. I suspect for this area it probably ought to be in the International Relations Committee with the State Department as a witness. But, obviously, this is a very large problem.

With further reference to the supplemental, we have passed it. I am sure that the form in which we passed it is not as agreeable to the Defense Department as they would prefer. I don't know what the Senate has done with it, though I am told this morning that they have tacked on 55 amendments to it, and heaven only knows when you are going to have Senate action or a conference on the supplemental. I don't see all that happening before April 7, when presumably the House is going to go into recess and not return until May 1. You will then be in the third quarter of fiscal year 1995.

You have a wave of problems coming that the supplemental is not going to solve, and I think it makes it that much more important that the DOD improve the way it shuffles its dollars around and what pots of money they have to tap in order to carry on these activities until something more comprehensive is done.

But you have got a real problem, even as we sit here today, with that supplemental and the time in which it is going to come in, whatever form it takes and no matter how we try to prevent it.

Mr. PICKETT. Could I clarify one point? I raised Guantanamo; that is just one operation. We have many, many others, many other services. Haiti impacts the Army and things like that.

Mr. BATEMAN. The gentleman from Texas, Mr. Edwards.

Mr. EDWARDS. I want to follow up on Mr. Cunningham's comments and your response.

I would agree there is, perhaps, a reason for or a purpose for every program in the DOD budget, but it seems to me, on a bipartisan basis, when we have Army trucks that are older than the people driving them, munitions shortages, all kinds of challenges to readiness, it seems to me we need to go back through that budget on a bipartisan basis and look at those programs that don't have

as high priority impact on ensuring the readiness of our young men and women.

I talked to a multibillion dollar corporation executive last night at a reception, and his company has made the highest profits it has made probably in two decades, and he said it would be awful if we cut a \$10 million-plus subsidy to his corporation. I have to believe that it isn't as critical to that corporation as it is trying to protect the lives of our young men and women who are protecting our country. I hope we will go through that budget on a bipartisan basis.

Mr. BATEMAN. The gentlelady from Florida, Mrs. Fowler.

Mrs. FOWLER. Thank you, Mr. Chairman.

Mr. Pickett and you expressed some of my concerns, because I am very worried. We heard testimony last week that we don't have an exit strategy at Guantanamo and, yet, that \$1 million a day continues to be spent. As Mr. Pickett pointed out, that is one of many others that we are committed to.

I am very worried because, in your testimony, you said that it is important to receive timely funding for unbudgeted contingency operations, and you go on with your two-part strategy to take care of this.

We have an administration that keeps committing us to these contingency operations, and I gather in the military strategy that came out last week for the first time, every peacekeeping is listed as a function of the military. So we will have these ongoing operations, I gather, new ones that the Congress doesn't have any say in; and the military once told to do them—do them, so these funds will keep going up. Then we are asked to pay for them.

The military is impacted because it comes out of their O&M account—their readiness account. We are told we have to pay for it in a timely manner because it is affecting readiness, even though we didn't have a voice about going there—our military didn't—and I can't see an end to this. I am very concerned.

You are asking for this readiness preservation authority, but I don't know what the restrictions are; and I will be interested because I am concerned about giving open ended funding up front to operations we haven't had much voice in. Down the road, I don't see what we are going to get to in order to get a better handle on this. Every year it appears to me that we are going to be in the same situation, and it doesn't seem to be getting much better.

Mr. DORN. Mrs. Fowler, I understand that there is a lively pattern of exchange between the executive branch and the Congress before decisions are made to engage in operations of the kind you are discussing. However, that is not a formal process. What we see is, a reflection of the separation of powers that was built into our Government in which the President needs to retain the discretion to move quickly in the event of a national emergency. At the same time, of course, the Congress has the power of the purse.

Mrs. FOWLER. I certainly agree that our President needs that authority. I think there is the question of what is defined as "national emergency." When the Bottom-Up Review was done, my understanding is that what was looked at is, we have the dollars to spend, you give us a defense strategy to spend the dollars.

I think when we start looking at all these operations, somebody in the executive branch had better start asking the same questions. These are the dollars we have to spend; and can we afford to do it? Those don't seem to be the questions being asked, and they need to be.

Thank you.

Mr. BATEMAN. The gentleman from Texas, Mr. Tejeda.

Mr. TEJEDA. Thank you.

Mr. Secretary, the effort to reinvent Government has resulted in across-the-board reductions in the Federal civilian work force. The excepted Federal work force of the Air National Guard is included this year in that reduction. Since Air Guard military technicians serve in a direct support role, as opposed to a staff role, any reductions in the Air National Guard will have a direct impact on the Guard's readiness and their training sorties.

Have you been made aware of the concerns resulting from these cuts, and how can Guard units be given relief if their resources are impacted?

Mr. DORN. We were made aware of that problem. Months ago, the Air Force came to us as we were putting together our decision memoranda for this year and said that a 4-percent reduction in Guard and Reserve technicians would be very difficult, given the important role that those technicians are playing in maintaining the readiness of Air Force units. I should stress that the Air Force uses its Guard and Reserve Forces very extensively. About 50 percent of our strategic airlift is being flown by Reservists.

So it was a very important point. If I recall correctly, the Air Force received some relief from that requirement.

Secretary Perry has also been apprised of the problem, not only with respect to the Air Force, but also with respect to the Army. And he has asked us to go back and take a new look at—Assistant Secretary Deborah Lee, the Assistant Secretary for Reserve Affairs, is coordinating that review.

But let me tell you the problem we started with and the problem we were trying to solve. The Secretary decided a couple of years ago that we should reduce the civilian labor force roughly the same degree to which we reduced the military. That worked out to a little more than 30 percent over a period of years. We came up with the 4-percent figure because that was our estimate of the rate at which we could draw down the civilian force without experiencing massive reductions in force, RIF's.

When we began to look at the way in which we would effect those cuts, we discovered a number of civilian occupations that were fenced—that is, through a variety of devices, they were protected from reductions—in the Air Force and in the Army, roughly 25 percent of all civilians were fenced in some way or other. What that meant was that unless we removed those fences, we would be reducing in a way that produced a very unbalanced civilian labor force.

The Deputy Secretary decided to unfence as many of those positions as possible, and the result is what you see, that Guard and Reserve technicians are no longer protected. We are going back to see whether, for example, we can distinguish between those technicians who are absolutely essential to maintaining readiness and

those who are involved in what we might call "administrative support activities" and use that distinction as a basis for calculating the degree to which we can bring down reserve technicians without adversely impacting readiness.

Mr. TEJEDA. One last question, and you can provide this for the record later if you wish. I would be interested to learn about the FTE impact on readiness with regard to the civilian work load, specifically the impact on depot maintenance.

[The following information was received for the record:]

IMPACT OF FULL TIME EQUIVALENT (FTE) RESTRICTIONS ON CIVILIAN WORK LOAD
AT ORGANIC MAINTENANCE DEPOTS

Congressman TEJEDA: One last question, and you can provide this for the record if you wish. I would be interested to learn about the FTE impact on readiness with regard to the civilian work load, specifically the impact on depot maintenance.

Full time equivalents (FTE's) are a method for accurately estimating and controlling the overall size of the DoD work force. FTE methods are balanced against military strategy, force structure, and mission requirements. The Department has balanced Depot Maintenance requirements against available FTE's, and we believe that there is no adverse impact on depot maintenance or other DoD workloads.

Mr. SISISKY. Will the gentleman yield? I heard you say the Army and the Air Force, but it is very critical in the Navy, particularly in naval shipyards. They set a limit in the different trades. They are working 7 days a week, 12 hours a day, to get the work out. I would rather have DOD lift that, but it seems strange to me. We should have enough workers to do the work. If we don't have the work, we don't have the workers. It isn't just in the Guard and Reserve and Air Force depots. It is absolutely happening in the naval shipyards.

Mr. DORN. I would welcome further discussion on the FTE matter, sir.

Mr. BATEMAN. The gentleman from South Carolina, Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Chairman. I would like to say to the witness, first of all, welcome and particularly to Mr. Finch, welcome back to the Hill.

I share with some of my colleagues on this committee the belief that we should begin trying to budget and perfect an account which would attempt to anticipate the actuarial or likely expense of contingency operations, and to fund that account in a manner of trying to provide funds for what we anticipate we will require the next fiscal year.

We might have to make that a very flexible account and allow you to retransfer or reprogram broadly from time to time in the bill, in the event that we didn't need the moneys that were put in that account, or they were needed for some other purpose that affected readiness. But I would solicit your support in trying to do that.

I think it is sound budgeting policy. It won't be easy to do; there will be years when we miss it. But I think we will be more honest with ourselves if we start trying to anticipate what these operations, that we know are likely to occur, are going to cost and put it in the budget.

Mr. DORN. We appreciate that support.

Mr. BATEMAN. Mr. McHale.

Mr. McHALE. Thank you, Mr. Chairman.

Gentlemen, last October in response to the Iraqi buildup along the Kuwait border, we rapidly deployed the 24th MEC ID successfully to intervene and deter a potential Iraqi attack; and by all accounts, that deployment went pretty well.

Shortly after it, however, I read an article in *Army Times* that indicated that as many as four of the Army NPF ships that were deployed as part of that echeloning of forces in the theater had broken down en route. The question is, Why did they break down?

What are we doing in terms of maintenance to guarantee that the next time we deploy, those ships can do so without difficulty? And lastly, could you give a thumbnail sketch of the current readiness of our NPF forces, those dedicated to the support of the Army as well as those who are dedicated to Marine Corps uses?

Mr. DORN. May I defer questions about a specific service to the Deputy Chiefs of Staff for Operations for those services, because when I talk about the services, I am always worried about getting it wrong.

Mr. MCHALE. I often have the same concern. I certainly understand your response. Frankly, I almost held the question for that reason, but because it does kind of cross service boundaries, I thought I would give you the opportunity to answer if you would choose to do so.

Mr. DORN. I would like to comment about our look at the O&M budget which is implicated here in the problem you described.

We have increased spending on operation and maintenance. Obviously, we have done it at the cost of other programs. But this is part of the adjustments we have made to ensure that those problems don't continue. During the budget process, we asked the services to estimate the kind of maintenance or the kinds of resources they need to provide maintenance consistent with our major military scenario, which is the two near-simultaneous contingencies; and those funds are reflected in the budget.

Mr. Finch may have more to say about the way in which we budgeted for maintenance operations.

Mr. FINCH. I think the points you raise say something about how, out of necessity, we need to manage our budget and deal with readiness. We tried to get the dollars right, we tried to get the programs right, we tried to anticipate maintenance problems; but the reality is that, hopefully, we guess right most of the time, but sometimes we don't. The reality is that cases like this will come up.

If they do come up, our strategy is to get on top of them and find out the problem and correct it.

Mr. MCHALE. What I would like to do, if I may, is—having given a heads-up to the deputy chiefs who are here to deal with operations, so that they might respond in a little greater detail—the question I would like to present to you is, I believe strongly that the more realistic our peacetime training, the more effective it is when we go to war.

At the end of the last fiscal year, I understand that as a result of budgetary shortfalls, field training exercises, live-fire exercises—the most realistic training that we have in some cases—was cancelled simply because the money was not there.

My question to you is, How do you find out when that happens? Is there a systematic way in which you are notified that a major

field training exercise has been cancelled so that you, in turn, can take whatever necessary action should follow? And I would like to have a red flag go up so that it serves as a deterrent effect, so that somebody knows that when you cancel that exercise, the word of that cancellation is going to be heard at a fairly high level.

Mr. FINCH. Earlier we talked about the joint monthly readiness review that takes place. One of the new initiatives we have to raise those warning flags is that review. If you have a circumstance that comes up where you are going to have to cancel a training exercise, not only today, but sometime in the future, then that is the forum where that would likely come up.

But, in addition to looking at current readiness of force today, we also look at it out 6 months to 1 year in advance. So, if there is a funding problem or other problem that would preclude training, that would be significant with respect to the readiness of that unit, then our mechanism for raising that red flag and figuring out what to do about it is this monthly process that we go through.

Mr. McHALE. One quick question. Just as an example, if a battalion-level field training exercise, a live-fire exercise is cancelled, how would you find out? By what system, for instance the monthly meeting, would that be conveyed to you? How bright a red flag is it?

Mr. DORN. At a battalion level, probably not very bright, although General Blackwell may have a different answer to that. But this is a matter of the judgment that is exercised at different points in the chain of command; and as Lou Finch described our discussions, each month the service chiefs tell us about their level of readiness along several indicators—personnel, equipment, and training. The Vice Chairman also presents a summary of comments from the commanders in chief of the Unified and Specified Command.

In addition to offering us general statements about whether they are doing all right with respect to personnel, the service chiefs or the vice raises a flag if there is a problem. If there is a problem, a major problem with equipment or with a training exercise or with a decline in recruiting for one of the services, that is raised as a flag.

We need to rely heavily on the judgments of the gentlemen sitting, who will testify later, and on the service chiefs and the vice to distinguish the really important issues from those that may not be quite as important.

Mr. McHALE. Thank you.

Mr. BATEMAN. Thank you very much, Mr. Secretary. We have a floor exercise of some kind to attend. I am going to suggest that if members have further questions, they submit them for the record. I am sure you will be happy to receive them if they do.

[The following information was received for the record:]

HONORABLE EDWIN DORN'S RESPONSES TO QUESTIONS FOR THE RECORD

HNSC (MILITARY READINESS) MARCH 16, 1995

QUESTION: Recently GAO issued a report that highlighted the limitations of SORTS for readiness assessments and recommended additional indicators that could provide a more comprehensive assessment. According to GAO, the DoD has begun steps to implement this recommendation. What is the status of the Department's

efforts in this area and when do you expect to begin using the additional indicators to measure readiness?

Mr. DORN. We are creating a readiness baseline of indicators that will be monitored to assess the current and future state of readiness. One of the inputs considered in formulating this readiness baseline was the GAO report. We expect to evaluate the usefulness of this baseline, based on Service-provided data, by late summer.

QUESTION: The Services are developing more comprehensive systems with predictive readiness features. Has your office sought to take a leadership role in developing such systems DoD-wide? If not, what do you believe the role of your office should be in this area?

Mr. DORN. We have not sought to constrain the Services' efforts to look for indicators that can reliably predict readiness. However, we will compare their findings with our readiness baseline once we are satisfied with it, with an eye towards rationalizing all of the ongoing efforts to develop indicators. OSD and Service efforts in this area have been complementary and cooperative.

QUESTION: A recent DoD readiness initiative was the creation of the Senior Readiness Oversight Council. Please discuss the specific readiness indicators that are presented to the Council by the Service chiefs. What significant contribution has the Council made in dealing with readiness issues? What are some of the tangible items that have emerged from the process?

Mr. DORN. This council, chaired by the Deputy Secretary and co-chaired by the Vice Chairman, Joint Chiefs of Staff, meets monthly to review unit and joint readiness. The Service Chiefs present a current and 12-month projection of the readiness of their combat and support forces in terms of SORTS ratings. In addition, the Vice Chairman of the Joint Chiefs of Staff presents the readiness status of what are called "enablers" (i.e., C3I, strategic lift, etc.) as part of their capability to support joint operations.

The most significant contributions made by the SROC have been 1) to focus attention for the first time on our readiness to conduct joint operations and 2) to agree on a format for presenting readiness information to the Deputy Secretary and senior management in the Department.

While the SROC is primarily a forum for communicating readiness information, action items are developed and responsibility for resolving these items is assigned to an appropriate organization.

QUESTION: Your note in your testimony indicates that DoD has several initiatives underway to develop methods to better predict future readiness. Would you please describe these initiatives and their status?

Mr. DORN. One initiative is the readiness baseline discussed previously. Another is to shred out from all the activities funded by Operations and Maintenance (O&M) appropriations those that contribute to readiness and, using this information, to develop a historical data base. Such a data base may be useful as a tool for predicting the development of readiness problems. We expect to finish this work by the end of summer.

QUESTION: It is our understanding that there is a significant lag time between the time a unit is reporting readiness difficulties and the time the senior leadership is informed and acts. Is there a need for more expedited notification to senior military leadership to ensure timely remedial action?

Mr. DORN. The Senior Readiness Oversight Council serves this purpose. In this forum, the Services report directly to the Deputy Secretary on any changes in the readiness posture of their forces on a monthly basis. This frequency of reporting has proved to be adequate.

QUESTION: Each Service maintains an IG operation at the cost of hundreds of millions of dollars to review and inspect the armed services on a wide range of issues. Is there an opportunity to make this structure perform a more active oversight role in assessing readiness?

Mr. DORN. The role of the IG is somewhat different in each Service. In the Marine Corps, the IG is the readiness manager. In the Air Force, the IG's Operational Readiness Inspections (ORIs) are a major input in assessing readiness. However, there is no clear indication that the readiness management processes of any one service are more effective than another.

Mr. BATEMAN. When we return, we will resume with our third panel.

Thank you very much, Mr. Secretary.

[Recess.]

Mr. BATEMAN. The committee will now come to order. We apologize to our distinguished panel for our absence. Unfortunately, it

is aggravated by the fact that we didn't get a thing done by going except record our presence as having been there.

We are now pleased to have the third panel testify—Lt. Gen. Paul E. Blackwell, U.S. Army, Deputy Chief of Staff of the Army for Operations and Plans; Vice Adm. Thomas J. Lopez, U.S. Navy, Deputy Chief of Naval Operations for Resources, Warfare Requirements and Assessments; Lt. Gen. Arthur C. Blades, U.S. Marine Corps, Deputy Chief of Staff for Plans, Policies, and Operations; and Lt. Gen. Joseph W. Ralston, U.S. Air Force, Deputy Chief of Staff for Plans and Operations. Welcome, gentlemen.

General Blackwell.

**STATEMENT OF LT. GEN. PAUL E. BLACKWELL, U.S. ARMY,
DEPUTY CHIEF OF STAFF FOR OPERATIONS AND PLANS**

General BLACKWELL. Thank you, sir.

It is a pleasure for me to be here representing America's Army this morning, an army that I will tell you is a trained and ready organization. As those before me, I have submitted a written statement for the record.

Mr. BATEMAN. All of your statements will be entered into the record and feel free to summarize.

General BLACKWELL. One thing I did append to the written statement was a little paper that explains how the Army measures and reports readiness to give an indication of how the system rolls up from the lower level and what those indicators mean. I would like to briefly emphasize several key points during my remarks.

Normally, we look at readiness as an indication of the state of training and equipping and personnel fill of an organization. The Army's focus is on a trained and ready force. When we look at near-term readiness—and near-term, the term we often use, the OPTEMPO associated with that—but we are now, as was presented during the GAO discussion, widening our focus in terms of the definition of, in fact, what readiness means.

Readiness includes training facilities, it includes training aids and devices, it includes ammunition, it includes the power projection facilities that are necessary at whatever port or whatever airfield in order to rapidly move our forces to wherever they may be directed to go. And we are working with a model that is called Operational Readiness, and that is the model that will become more inclusive over time as we move toward that kind of depiction of readiness.

In addition, I would say that near-term readiness includes quality of life, it includes the things that you referred to earlier; it includes base operations, it includes depot maintenance, for example.

Readiness is protected to the best of our ability. Our guidance from the Secretary of Defense is that readiness is first priority; other requirements could be traded off in favor of readiness. The fundamental purpose of readiness is to ensure our preparedness to fight and win our Nation's wars.

While near-term readiness is protected in the budget for 1996, there could be risks that are associated, as have already been discussed this morning, with unforeseen contingencies. Protecting near-term readiness does require some trade-offs that have to be made, trade-offs in terms of modernization of equipment and facili-

ties. Now, that is not a bad short-term strategy, but it is not good in the long haul in terms of overall readiness, for readiness at large.

As our Army moves to a knowledge-based organization that we call FORCE XXI, there has to be a balance. There has to be a balance in terms of the resources that are applied to near-term training, OPTEMPO, and long-term modernization efforts, modernization of equipment, facilities, et cetera. So that balance becomes very important to us.

With those few brief remarks, I will look forward to answering your questions, sir.

Mr. BATEMAN. Thank you.

As Of: 11:13 March 14, 1995

RECORD VERSION

STATEMENT BY
LIEUTENANT GENERAL PAUL E. BLACKWELL
DEPUTY CHIEF OF STAFF
FOR
OPERATIONS AND PLANS

BEFORE THE
NATIONAL SECURITY COMMITTEE
OF THE
U.S. HOUSE OF REPRESENTATIVES

104TH CONGRESS

ON THE FORCE READINESS CONCERNS
AND SOLUTIONS

16 MARCH 1995

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As Of: 11:13 March 14, 1995

Mr. Chairman and members of the committee, it is an honor for me to appear before you. I have been serving as the Army's Deputy Chief of Staff for Operations and Plans for eight months. In that time I have seen the Army that just a few short years ago achieved such decisive victories in JUST CAUSE and DESERT STORM take part in operations in Macedonia, Rwanda, Kuwait, and Haiti and conduct domestic operations fighting fires in the northwest and floods in the southeast. These operations have, if nothing else, served to remind us that America's Army is the strategic core of our Nation's joint warfighting capabilities. Our success in these widely disparate operations is the culmination of over twenty years of diligent and sustained investment by our nation in soldiers, training, leader development, equipment, and doctrine (described in great detail in Certain Victory: The U.S. Army in the Gulf War) that started just after our involvement in Vietnam ended. I have also seen the announcement of the restructuring of the Army from 12 to 10 active component divisions and the crux of the Army's readiness issue before this committee: the reporting of three of the current 12 divisions at a readiness level of C-3 in training at the end of the fiscal year last Fall.

Before becoming the Deputy Chief of Staff for Operations and Plans I was the Commander of the 24th Infantry Division, the Assistant Division Commander of the 3rd Armored Division, and the Commander of the 2nd Armored Division (Forward). Through these and other command assignments, I learned the inner workings of not only how readiness is maintained and reported within an Army division, but also the tough choices and balancing among the various readiness accounts that commanders must make in order to best maintain readiness within a constrained budget. Maintaining readiness is much more than simply the full execution of the programmed number of hours driven in combat vehicles or flown in aircraft that we call Operating

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Tempo (OPTEMPO). In the near term, it is a process that balances spending between programs such as OPTEMPO, Base Support (BASOPS), Real Property Maintenance (RPM), and Depot Maintenance. In the long term, it is a sustained and stable investment in maintaining high caliber soldiers, leaders, modern equipment, and quality facilities that will ensure we remain the dominant land force power in the world.

Having said that, the money currently budgeted for readiness in FY 96 will maintain a trained and ready Army, if the budget request is appropriated and executed as submitted. The FY 96 budget funds a full schedule of unit rotations to our combat training centers and provides sufficient funds for training at home station. The money programmed for OPTEMPO, BASOPS (-), RPM, and Depot Maintenance is sufficient to maintain readiness in FY 96 if we are reimbursed for the incremental cost of contingency operations such as those in Kuwait, Haiti, and the Cuban refugee camps. My primary concern is the timely reimbursement of our contingency operations. As General Sullivan testified on the 22nd of February, "Readiness will fall off the table in the 4th Quarter without the Supplemental."

There will be a planned decrease in readiness of three Army divisions in FY 96. Although the actual readiness ratings are classified, and I can provide those reports in that form at a later time, the two divisions at Fort Riley and Fort Carson will report a decrease in readiness as they begin their inactivation as we restructure the Army from a 12 to 10 fully structured active component division force. As these divisions begin turning in equipment and shutting down operations during this inactivation their ability to perform the mission for which they are organized will be degraded and

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eventually impossible. Additionally, one division's readiness will fluctuate for a short duration of time as it fields and trains at Fort Hood with the Army's most modern equipment during its transformation to the Experimental Force (EXFOR) of the Army's Force XXI. This fielding and training will temporarily degrade this division's ability to perform the mission for which it was organized. This short decrease in that division's readiness rating will not affect the Army's overall ability to support the national military strategy in the short term, and in the long term will provide the baseline for significantly enhancing the readiness and warfighting ability of the entire Army of the future.

These planned readiness impacts contrast with the reduced training levels that occurred at the end of the last fiscal year in our CONUS reinforcing divisions. At that time three divisions fell to a level described as being trained to undertake many but not all wartime missions. Units at this level are considered deployable but commanders must compensate for their decreased flexibility and increased vulnerability. These decreases were caused by training event cancellations and reductions driven by the need to finance contingency operations from the training funds remaining at the end of the fiscal year. Once the training level of a unit decreases, the pace of recovery is based on dollars and on a complex training management program based on available facilities, equipment, soldiers, leaders, and time. Having said that, the training dollars provided in the FY 95 budget will fund the aggressive training plans developed by the commanders and result in recovery and sustainment of readiness levels assuming passage of the FY 95 Supplemental and approval of our subsequent reprogramming request that is currently being developed.

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I have included a brochure titled How America's Army Measures and Reports Readiness with my written statement. This brochure outlines the process used within the Army in measuring and reporting readiness and what those readiness reports are used for once they reach the Department of the Army. Although this is a simplification of a complex system, it does provide a good overview and an easy reference document. This system is fundamentally sound and gets its integrity and strength from the fact that it measures readiness from the bottom up. Reporting begins at the lowest level and builds through each successive level. At each level, commanders apply a combination of objective metrics and sound professional judgment to derive a realistic and timely readiness assessment. This system is exercised universally by all Army units, combat or support, and all components, Active, Guard, and Reserve. The combination of analytics and sound professional judgment permits the Army to accurately monitor and predict readiness in the near future. We can measure core concerns in the areas of personnel, equipment availability, equipment serviceability, and training. And although they are not measured directly, this system is sensitive to intangible measurements of readiness such as morale, quality of life, leadership, and individual soldier training.

The estimate of OPTEMPO generated by the Training Resource Model has been the Army's traditional method for determining the programming requirements for training and was never intended to be a predictor of overall force readiness. The Army Staff is currently working on an "Operational Readiness" model which will predict the cost of preparing a unit to perform its wartime mission. This model will include the costs related to ammunition, training aids, simulators and simulations, ranges, base operations, and power projection facilities not previously included as part of OPTEMPO. Additionally, it will tie funding to the execution of an explicit training strategy and series of training events for each type of unit. This model will provide a

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much better picture of a unit's operational readiness based on its ability to execute that strategy and train to standard on prescribed events. The Army plans to budget OPTEMPO requirements using operational readiness in its FY 97 budget.

The dilemma in readiness in FY 96 we will still face, however, is finding a workable balance between providing resources for readiness and executing operational missions like contingency operations. To ensure FY 96 readiness the Army needs stability in the levels of funding requested in the readiness accounts of the FY 96 budget and the flexibility to make prudent resource decisions during the year of execution. Restricting the ability of field commanders to move funds will inhibit the Army's ability to manage the readiness of the force consistent with operational missions.

To ensure long-term readiness, the Army needs sustained and stable investment in maintaining high caliber soldiers, modern equipment, and quality facilities. To protect near-term readiness, we have accelerated division inactivations to reach the 10 division endstate and have paid our "must pay" near-term bills from our investment accounts: equipment and facilities modernization. While somewhat mitigated by the equipment investments made in the 1980s, this is only a short-term strategy. If this continues too long it will place at risk long-term readiness; however, we are like the commander who imposes a supply constraint on his unit. We are eating off the shelf and only creating a bow-wave of requirements later. We must pay more attention to long-term readiness. There is funding in the FY 96 budget to preserve the research and development for Crusader and Comanche, but some procurement programs are being stretched to uneconomic production rates. This year marks the last buy in the initial multi-year contract of the Family of Medium Tactical Vehicles (FMTV) and the Army

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will still be left nearly 85,000 vehicles short of the requirement. Additional FMTVs will be procured starting in FY 99 to address this issue. Every other aspect of the Army's modernization program is embodied in Force XXI, a knowledge-based Army. This involves the prudent appliqué of information age technology on current world class platforms or service life extension programs on our seriously over-aged fleets of equipment. Our critics say Force XXI with its focus on information age technology is unaffordable. I say we cannot afford not to do Force XXI.

There is a need for a mechanism to fund contingency operations from other than current readiness accounts. However configured, this mechanism must provide timely or advanced reimbursement to insure that readiness is not degraded by canceled or deferred training programs. As recent events have shown, once training programs are canceled causing the level of training to decrease, recovery is a slow process paced by ranges, training areas, resources and time. A timely or advanced funding mechanism will alleviate this problem.

Today, the soldiers and leaders of America's Army are trained and ready to fight and win our Nation's wars. They are serving the Nation both at home and abroad. The 125,000 soldiers and their families permanently stationed overseas in Germany, Korea, and Panama represent approximately 25 percent of the force, down from a Cold War high of more than half of our active Army units. At the same time, we are sustaining our continuity of purpose with an average of 18-20,000 soldiers deployed on numerous operational and training missions in 75 countries every day of the year. Since 1990, Military Operations Other Than War have increased dramatically, and there is little likelihood that these operational

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requirements will decrease. These soldiers are performing humanitarian operations in Northern Iraq, Guantanamo, the former Yugoslavian Republic, Panama, and the Pacific; peacekeeping in the Sinai, Cambodia, the Western Sahara, and Syria; training exercises in the Pacific, Latin America, and Africa; counter-drug and nation assistance operations in Latin America, Africa, and the Pacific rim; restoration of democracy in Haiti; and medical support for UN forces in Croatia. Finally, our combat units and their support forces are training to go to war at home station and at our Combat Training Centers at Forts Irwin, Polk, and Leavenworth and Hohenfels, Germany. With little fanfare and little attention, America's Army executes these missions daily to secure our interests and to control conflicts in ways that no other military organization can.

Our soldiers today, wherever they may be, are capable of decisive victory in all that they may be asked to do. We have a shared responsibility to ensure that they are also ready tomorrow — quality Active, Guard, and Reserve component soldiers and leaders, adequately funded for readiness, trained on modernized weapon systems for information-age warfare, and supported by strategic air and sea lift. With your support, America's Army will continue to be the world's dominant land combat force well into the 21st century.

Mr. BATEMAN. Admiral Lopez.

STATEMENT OF VICE ADM. THOMAS J. LOPEZ, U.S. NAVY, DEPUTY CHIEF OF NAVAL OPERATIONS FOR RESOURCES, WARFARE REQUIREMENTS AND ASSESSMENTS

Admiral LOPEZ. Mr. Chairman and distinguished members, thank you for inviting me here to address this session. We are all anxious to entertain your questions, so I will be brief.

Navy readiness today is excellent, but I think readiness is a perishable commodity, so there does remain a concern for the future. Our view of readiness, I think, is consistent with the SECDEF's and the chairman's. It is key to forward engagement, war prevention, crisis response and winning wars. I might add, it is more cost effective to stay ready and prevent conflict rather than to fight a war. Readiness remains our number one priority.

I will discuss how our current budget maintains Navy readiness, and then describe our efforts to develop a comprehensive readiness assessment system. Members of this committee have always been very helpful in protecting our readiness, and it is reassuring to come before the committee knowing that you share a common goal, and that is, keeping us forward engaged and ready to fight if we have to.

Our fiscal year 1996 budget is designed to support a Navy program that preserves current and future readiness. We think that maintaining technological superiority is critical for our future readiness. The pace and cost of contingencies have the potential to hinder efforts to maintain today's readiness, and perhaps tomorrow's, if we have to draw from our modernization accounts to pay for today. Limited financial flexibility exists, but we have to divert funds from other areas to pay for readiness.

The Navy is forward deployed and ready to act. However, this past year placed us in seven various contingencies, and we normally plan for operations in three different areas. We have sought an emergency supplemental, and we certainly are most appreciative of the congressional support we have received.

In the area of future readiness, we must continue to modernize and not get too small. We are committed to a more capable force, and we think we are small enough now. In our readiness assessment system, we have taken tremendous strides. Previous studies—the GAO was here, CBO, General Meyer—we have used everything that they have given us as a starting point and come up with predictive measures of readiness, a system for measuring readiness execution. We annually do a readiness assessment, and with the other members of the joint services, we participate in a joint readiness system.

In predictive readiness measures, the bottom line is—and I think that was addressed earlier today—there is no single measure of readiness. It has to be a composite picture of personnel, training, aircraft, ships, munitions, installations, OPTEMPO, force structure; and each area has subcategories including one that was mentioned, SORTS, recruit quality, retention, safety mishap reports, steaming days, flying hours, aircraft mission capable rates, et cetera.

We manage our readiness execution a bit differently than some. We believe our forward units have to be as close to 100 percent as

we can have them in readiness, and we are willing to accept lesser readiness with ships that are in maintenance or in overhaul.

We have established a readiness assessment, that we do annually with the Marine Corps; and the results of that readiness assessment, which we are undergoing now, are fed back into the PPBS system. We are working with OSD and JCS in the Senior Readiness Oversight Council and their joint warfare capabilities process, which is in concert with our Navy assessment process.

In summary, we cannot lose sight of our most precious commodity—our people, our sailors—and if they are not motivated, trained, and quality, our readiness will decline. Our readiness remains No. 1, and I think everyone from Secretary Dalton and Admiral Boorda down is fully committed to that.

In my view, readiness is ultimately the foundation for maintaining the credibility of our forces as an instrument of foreign policy. Future readiness depends on developing and maintaining the right forces with the right capabilities and attracting the right people.

Thank you. I am ready to respond to your questions.

Mr. BATEMAN. Thank you.

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STATEMENT OF
VICE ADMIRAL THOMAS J. LOPEZ
DEPUTY CHIEF OF NAVAL OPERATIONS FOR
RESOURCES, WARFARE REQUIREMENTS AND ASSESSMENTS
BEFORE THE
READINESS SUBCOMMITTEE
OF THE
HOUSE NATIONAL SECURITY COMMITTEE
16 MARCH 1995

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NATIONAL SECURITY COMMITTEE

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, IT IS MY PLEASURE TO BE HERE TODAY TO DISCUSS NAVY READINESS. NAVY READINESS TODAY IS OUTSTANDING BUT THERE REMAINS A CONCERN FOR THE FUTURE. OUR VIEW OF READINESS IS CONSISTENT WITH THAT OF THE SECRETARY OF DEFENSE -- READINESS IS KEY TO FORWARD ENGAGEMENT, WAR PREVENTION, CRISIS RESPONSE AND WINNING WARS. READINESS REMAINS NAVY'S NUMBER ONE PRIORITY. TODAY, I WILL DISCUSS HOW OUR CURRENT BUDGET REQUEST MAINTAINS NAVY'S READINESS AND, THEN, I WILL DESCRIBE OUR EFFORTS TO DEVELOP A COMPREHENSIVE READINESS ASSESSMENT SYSTEM. MEMBERS ON THIS COMMITTEE HAVE ALWAYS BEEN PARTICULARLY HELPFUL IN PROTECTING NAVY READINESS. THIS YEAR, LIKE LAST YEAR, PRESENTS A DIFFICULT CHALLENGE TO OUR COOPERATIVE EFFORTS. IT IS HEARTENING TO COME BEFORE THE MEMBERS OF THIS COMMITTEE, KNOWING THAT YOU SHARE WITH US A COMMON GOAL - KEEPING OUR NAVY FORWARD ENGAGED AND READY TO FIGHT.

OUR FISCAL YEAR 1996 BUDGET IS DESIGNED TO SUPPORT A NAVY PROGRAM THAT PRESERVES CURRENT READINESS. MAINTAINING THE TECHNOLOGICAL SUPERIORITY WE NOW HOLD OVER POTENTIAL ADVERSARIES IS ABSOLUTELY CRITICAL FOR SUCCESS WITH THE SMALLER FORCE TOWARDS WHICH WE ARE MOVING. THUS, OUR BUDGET CONTINUES TO MODERNIZE WEAPONS, SYSTEMS, AND PLATFORMS, AS WE RIGHTSIZE OUR NAVAL FORCES TO MEET TODAY'S MISSION NEEDS.

HOWEVER, THE PACE AND THE HIGH COST OF SUPPORTING UNANTICIPATED AND UNBUDGETED CONTINGENCIES AND COMMITMENTS HAVE THE POTENTIAL TO HINDER OUR EFFORTS TO MAINTAIN READINESS. BY THEIR VERY NATURE, EMERGENT CONTINGENCY OPERATIONS ARE UNPREDICTABLE IN SCOPE AND DURATION, AND DO NOT ALLOW FOR ADVANCE PLANNING AND BUDGETING.

WHEN UNEXPECTED OPERATIONS OCCUR, WE HAVE LIMITED FINANCIAL FLEXIBILITY TO SUPPORT A HIGHER TEMPO OF OVERSEAS OPERATIONS THAN EXPECTED AND WE MUST DIVERT FUNDS FROM OTHER AREAS OF THE BUDGET TO FUND CURRENT OPERATIONS. FOR EXAMPLE, IN FISCAL YEAR 1994, WE HAD TO TAKE THE FOLLOWING ACTIONS IN ORDER TO ADDRESS UNREIMBURSED CONTINGENCY REQUIREMENTS: DEFER SHIP SUPPLY AND EQUIPMENT PURCHASES; DEFER SHIP INACTIVATIONS; GROUND AIRCRAFT JUST RETURNED FROM DEPLOYMENTS; REDUCE FLYING HOURS FOR SELECTED AVIATION SQUADRONS; DEFER DEPOT AND INTERMEDIATE LEVEL MAINTENANCE ON SHIPS; AND POSTPONE REAL PROPERTY MAINTENANCE AND OTHER NEEDED INFRASTRUCTURE INVESTMENTS. THE BOTTOM LINE IS THAT THE COST OF OPERATING THE FLEET CONSUMES ALL OUR AVAILABLE RESOURCES, AND WHEN CONTINGENCIES ARISE, WE ARE FORCED TO ROB OTHER ACCOUNTS TO PAY FOR CURRENT READINESS.

ALTHOUGH NORMALLY THE NAVY IS FORWARD DEPLOYED AND READY TO ACT IN ANY CONTINGENCY, THIS PAST YEAR PLACED US IN SEVEN AREAS INSTEAD OF THE NORMAL THREE. THEREFORE, WE HAVE SOUGHT AN EMERGENCY SUPPLEMENTAL APPROPRIATION TO AVOID THE IMPACT ON READINESS THESE UNBUDGETED REQUIREMENTS WOULD OTHERWISE HAVE ON OUR OPERATING ACCOUNTS. WE ARE MOST APPRECIATIVE OF THE CONGRESSIONAL SUPPORT WE HAVE RECEIVED. REPEATED UNPROGRAMMED OPERATIONS WITHOUT SUBSEQUENT COMPENSATORY FUNDING WILL DEGRADE COMBAT READINESS AND CAN DAMAGE OUR FUTURE MILITARY CAPABILITIES.

HEAVY DEMAND FOR OUR FORCES THIS YEAR INDICATES THAT OUR PREVIOUSLY PROGRAMMED FORCE LEVELS REQUIRE MODEST ADJUSTMENT TO MEET LEVELS OF OPERATIONS ACTUALLY BEING EXPERIENCED. WE NEED TO MAKE THESE ADJUSTMENTS IN ORDER TO AVOID EXCESSIVE PERSTEMPO, WHICH IMPACTS

NEGATIVELY ON OUR PEOPLE. WE ARE PAYING PARTICULARLY CLOSE ATTENTION TO OUR SURFACE COMBATANT FORCE AND AMPHIBIOUS LIFT CAPACITY. AS A RESULT, THIS YEAR WE HAVE PLANNED TO RETAIN TWO ADDITIONAL FFG7 CLASS FRIGATES. TO PUT THIS MODEST CHANGE TO OUR SURFACE COMBATANT FORCE IN PERSPECTIVE, IN 1987 WE HAD A FORCE HIGH OF 218 SURFACE COMBATANTS; WE ARE NOW PROGRAMMED FOR 126 IN FISCAL YEAR 1996; 116 ACTIVE AND TEN RESERVE. WE ARE ALSO PLACING TWO LST'S IN THE NAVAL RESERVE AND TWO LKA'S IN REDUCED OPERATIONAL STATUS (ROS-5). ADDITIONALLY, FOUR LST'S AND THREE LKA'S HAVE BEEN PUT IN MOBILITY CATEGORY B FOR WARTIME RECALL. OUR LST AND LKA PLAN PERMITS US TO CONTINUE MEETING OUR FISCALLY CONSTRAINED GOAL OF 2.5 MEB EQUIVALENTS IN ACCORDANCE WITH CURRENT GUIDANCE.

FUTURE READINESS ALSO RECEIVED INCREASED ATTENTION DURING THE YEAR AS WE CONTINUED TO MODERNIZE TO MEET THE NATIONAL SECURITY REQUIREMENTS OF THE 21ST CENTURY. FUTURE READINESS IS FACILITATED BY CORRECTLY SIZING THE FORCE. A FORCE THAT IS TOO SMALL PLACES TOO MANY DEMANDS ON PEOPLE AND EQUIPMENT - IT WEARS THEM DOWN TO A LEVEL THAT PUTS READINESS AT RISK. WHILE WE ARE CLEARLY COMMITTED TO BEING SMALLER AND MORE MODERN THAN THE NAVY OF THE 1980S, THERE IS A BREAK POINT WHERE CAPABILITY WILL SOON NOT BE ABLE TO REPLACE LOST STRUCTURE. MAINTAINING THE READINESS OF A FORCE THAT IS SIZED CORRECTLY TO MEET OUR OBLIGATIONS REQUIRES CLOSE SCRUTINY, AND WE ARE PROVIDING THAT ON A CONTINUING BASIS.

NEXT, LET ME DISCUSS NAVY'S EFFORTS TO DEVELOP A COMPREHENSIVE READINESS ASSESSMENT SYSTEM. IN FACT, 1994 COULD ACCURATELY BE TITLED AS THE YEAR OF ASSESSING MILITARY READINESS.

WE HAVE TAKEN TREMENDOUS STRIDES IN IMPROVING OUR ABILITY TO MEASURE AND MANAGE READINESS. AS YOU ARE WELL AWARE, SEVERAL SIGNIFICANT STUDIES HAVE BEEN CONDUCTED ON MILITARY READINESS - GAO, CBO, AND SECRETARY PERRY'S OWN READINESS TASK FORCE LEAD BY GENERAL MEYER. USING THESE STUDIES AS A STARTING POINT, NAVY ACCOMPLISHED A GREAT DEAL OVER THE PAST YEAR BY DEVELOPING RELIABLE READINESS MEASURES AND INDICATORS AND IMPROVING OUR READINESS ASSESSMENT PROCESS AND OUR ABILITY TO PREDICT FUTURE READINESS. PARTICULARLY, OUR EFFORTS FOCUSED ON FOUR MAJOR AREAS: (1) PREDICTIVE MEASURES OF READINESS (PMOR); (2) READINESS EXECUTION; (3) NAVY'S READINESS ASSESSMENT; AND (4) PARTICIPATION IN OSD/JCS DEVELOPMENT OF A JOINT READINESS SYSTEM.

SINCE LAST SUMMER, WE HAVE BEEN DEVELOPING BETTER PREDICTIVE MEASURES OF FUTURE READINESS AND A SET OF PREDICTIVE MEASURES TO ASSESS BUDGET SUBMISSIONS. A FLAG STEERING GROUP AND A READINESS WORKING GROUP FROM OPNAV, THE FLEET, OUR SYSTEMS COMMANDS, AND THE CENTER FOR NAVAL ANALYSES WAS ESTABLISHED. INTERVIEWS OF SENIOR LEADERSHIP WERE CONDUCTED; PREVIOUS GAO, DEFENSE SCIENCE BOARD, AND CBO READINESS STUDIES WERE REVIEWED; AND NUMEROUS WORKING GROUP AND FLAG STEERING GROUP MEETINGS WERE HELD IN ORDER TO CLEARLY IDENTIFY EXISTING SYSTEMS MEASURING READINESS AND METHODS FOR PREDICTING FUTURE READINESS BASED ON CURRENT METRICS. THE RESULTS OF THAT EFFORT WERE PRESENTED TO CNO IN OCTOBER 1994.

THE STUDY CONCLUDED THAT THERE IS NO SINGULAR MEASURE OF READINESS WHICH FULLY CAPTURES THE BROAD SPECTRUM OF COMPONENTS WHICH GO INTO THE OVERALL READINESS MEASURE FOR ANY PARTICULAR FORCE OR INDIVIDUAL UNIT.

IT FURTHER CONCLUDED THAT THE BEST OVERALL PICTURE OF NAVY READINESS IS OBTAINED BY MEASURING THE FOLLOWING - PERSONNEL, TRAINING, AIRCRAFT, SHIPS, MUNITIONS, INSTALLATIONS, AND OPTEMPO/FORCE STRUCTURE. EACH OF THESE MEASUREMENT AREAS CONTAINS NUMEROUS SUB-CATEGORIES OF READINESS MEASUREMENTS CONSISTING OF BOTH OBJECTIVE AND SUBJECTIVE INDICATORS. THESE MEASUREMENTS INCLUDE: STATUS OF RESOURCES AND TRAINING SYSTEM (SORTS); CRITICAL SKILLS FILLS AND NAVY FORCE PROFILE; RECRUIT QUALITY AND RETENTION/REENLISTMENTS; SAFETY MISHAP RATES; STEAMING DAYS/FLYING HOURS; AIRCRAFT MISSION CAPABLE/FULL MISSION CAPABLE RATES (MC/FMC); PERCENT OPERATING TIME FREE OF C3/C4 CASREPS (POTF); MUNITIONS INVENTORY LEVELS; CRITICAL BACKLOG OF MAINTENANCE AND REPAIR (BMAR); FORCE LEVELS; OPTEMPO; AND PERSTEMPO. THESE PREDICTIVE MEASURES ARE CONTINUING TO MATURE AS EXPERIENCE IS GAINED BY USING THESE METRICS.

SECOND, WE HAVE SCRUTINIZED THE WAY IN WHICH WE MANAGE THE EXECUTION OF OUR READINESS ACCOUNTS AND WE HAVE INCREASED FLEET PARTICIPATION IN READINESS RESOURCE ALLOCATION DECISIONS. CINCLANT FLEET AND CINCPAC FLEET HAVE ESTABLISHED A WORKING GROUP TO REVIEW THE RESULTS OF OUR STUDY ON PREDICTIVE MEASURES. ANALYSES OF OUR READINESS RESOURCE ALLOCATION DECISIONS SHOW, NAVY READINESS IS BEING MANAGED ON A CYCLICAL BASIS - IN OTHER WORDS, DEPLOYED FORCES WHICH WOULD BE CALLED IN TO FIGHT FIRST ARE MAINTAINED AT OR NEAR THE HIGHEST LEVELS OF READINESS; THOSE FORCES PREPARING TO DEPLOY NEXT ARE NEARING THE HIGHEST LEVELS; AND THOSE WHICH WOULD DEPLOY IN THE MORE DISTANT FUTURE ARE WORKING TOWARD EVENTUAL ACHIEVEMENT OF THE HIGHEST LEVELS. IN ADDITION, THE FLEET CINCS ARE PREPARING TO PROVIDE A MONTHLY INPUT TO CNO IDENTIFYING CONSEQUENCES OF MOVING MONEY AND CONTINGENCY OPERATIONS. THESE INPUTS

WILL BE FACTORED INTO OUR READINESS RESOURCE ALLOCATION DECISION-MAKING PROCESS TO ENSURE OUR CYCLICAL-BASED MANAGEMENT OF READINESS REMAINS SOUND.

THIRD, THE NAVY HAS ESTABLISHED A SEPARATE READINESS ASSESSMENT IN OUR ANNUAL NAVY-WIDE ASSESSMENT PROCESS. THIS EXTENSIVE SELF-EXAMINATION, ACROSS ALL PLATFORMS AND PROGRAMS, ASSESSES NAVY'S PROJECTED OVERALL READINESS TO ENSURE IT IS PROPERLY FUNDED, IDENTIFYING SHORTFALLS AND RISKS. RECOMMENDATIONS ARE MADE IN SUPPORT OF THE PLANNING, PROGRAMMING AND BUDGETING SYSTEM TO ADDRESS THESE SHORTFALLS.

FINALLY, NAVY IS WORKING VERY CLOSELY WITH OSD AND THE JOINT STAFF TO INTEGRATE AND IMPROVE EXISTING READINESS SYSTEMS AND PROCESSES. THE SENIOR READINESS OVERSIGHT COUNCIL (SROC) AND READINESS WORKING GROUP (RWG), ESTABLISHED BY SECRETARY PERRY FOR TOP LEVEL COORDINATION AND OVERSIGHT OF DOD READINESS ACTIVITIES, BEGAN LAST YEAR. SECRETARY DEUTCH DIRECTED EACH SERVICE CHIEF TO REPORT MONTHLY TO THE SROC ON THE SERVICE'S CURRENT AND PROJECTED READINESS. IN ADDITION, THE JOINT STAFF HAS SIGNIFICANTLY INCREASED THEIR ROLE IN READINESS AS PART OF THE JOINT WARFIGHTING CAPABILITIES ASSESSMENT (JWCA) PROCESS. IN ADDITION TO PARTICIPATING IN THE READINESS JWCA, THE NAVY PARTICIPATES IN THE VICE CHAIRMAN'S JOINT MONTHLY READINESS REVIEWS (JMRR). THIS BRIEF BY EACH SERVICE PROVIDES VISIBILITY OF CURRENT AND PROJECTED READINESS STATUS FOR BOTH COMBAT AND CRITICAL STRATEGIC SUPPORT FORCES IN SUPPORT OF JOINT WARFARE.

NO MATTER HOW WE MEASURE READINESS, WE CAN NEVER LOSE SIGHT OF OUR MOST PRECIOUS READINESS RESOURCE - OUR SAILORS. THE MEN AND WOMEN OF TODAY'S NAVY ARE THE FINEST THAT HAVE EVER SAILED THE OCEANS. WITHOUT MOTIVATED, TRAINED, QUALITY SAILORS OUR READINESS WILL DECLINE. THAT IS WHY WE PLACE SO MUCH EFFORT INTO ENSURING WE RECRUIT AND RETAIN THE REQUIRED NUMBER OF PEOPLE WITH REQUISITE SKILLS AND PROVIDE OUR SAILORS THE QUALITY OF LIFE THEY SO WELL DESERVE.

I WILL CONCLUDE BY REITERATING THAT MAINTAINING READINESS IS THE NUMBER ONE NAVY RESOURCE ALLOCATION PRIORITY AND NAVY LEADERSHIP IS COMMITTED TO THAT END. WE ARE CONTINUALLY CONDUCTING SELF-ANALYSES OF OUR MEANS TO MEASURE AND PREDICT READINESS; INCLUDING REVIEW OF READINESS MEASUREMENT TECHNIQUES DEVELOPED OUTSIDE THE NAVY. WE ARE FULLY ENGAGED AND ON BOARD WITH SECRETARY PERRY'S READINESS EFFORTS AND THE DEVELOPMENT OF A JOINT READINESS REPORTING SYSTEM.

WELL-TRAINED PEOPLE, OPERATING MODERN, WELL-MAINTAINED EQUIPMENT ARE THE CORNERSTONE OF OUR NAVY. READINESS IS ULTIMATELY THE FOUNDATION FOR MAINTAINING THE CREDIBILITY OF OUR FORCES AS AN INSTRUMENT OF FOREIGN POLICY AND NATIONAL RESOLVE. TODAY, OUR NAVY IS FORWARD DEPLOYED AND READY TO GO IN HARM'S WAY TO DEFEND AMERICAN INTERESTS. FUTURE READINESS DEPENDS ON DEVELOPING AND MAINTAINING THE RIGHT FORCES, AND ATTRACTING AND RETAINING THE RIGHT PEOPLE.

AT THIS TIME MR. CHAIRMAN, I WOULD LIKE TO ANSWER ANY QUESTIONS THE COMMITTEE MIGHT HAVE.

Mr. BATEMAN. General Blades.

STATEMENT OF LT. GEN. ARTHUR C. BLADES, U.S. MARINE CORPS, DEPUTY CHIEF OF STAFF FOR PLANS, POLICIES, AND OPERATIONS

General BLADES. Mr. Chairman, thank you for the opportunity to appear before you today to discuss Marine Corps readiness.

This past year, the Marine Corps was involved in operations in Rwanda, Somalia, the Caribbean, Jamaica, Panama, Cuba, the Persian Gulf, Haiti, and Bosnia to name a few. Additionally, this month we recently completed the successful withdrawal of U.N. Forces from Somalia.

Maintaining core competencies across a broad spectrum of warfare requires the Marine Corps to be constantly focused on readiness and training. Whether forward deployed or CONUS based, every unit is deployed in a high state of readiness, and the cycle is very predictive. The utility of the forward-presence mission in meeting national security commitments is routinely demonstrated. Forward presence forces have averaged one new contingency operation for every month for the past 3 years. During fiscal year 1995, forward presence forces on scheduled deployments participated in over 10 contingencies already. It has been a very busy year.

The O&M budget is structured to finance this TEMPO. However, unplanned contingencies and those attendant costs are borne for the fleet Marine Forces out of the operation and maintenance accounts. Therefore, although the increment cost is relatively small, it is extremely important they be financed in the form of a timely supplemental, preferably by the fourth quarter of fiscal year 1995.

The fiscal year 1996 budget is the minimum necessary to maintain an operationally effective and ready Marine Corps. To maintain combat readiness, we defer investment in modernization of equipment of our ground forces as well as the maintenance and repair of the base infrastructure which supports them.

The fiscal year 1996 budget and recent administration increases for quality of life have significantly improved today's readiness picture. However, the Marine Corps' wellness after fiscal year 1997 is of concern. For example, a significant amount of the Marine Corps ground equipment was obtained in the 1980's and is approaching the end of its service life. Recapitalization of the base infrastructure to support our forces and modernization will continue to pay for the current and near-term readiness of our force.

In summary, the Marine Corps is a force of economy. The funds requested by the President in fiscal year 1996 are just under 6 percent of the total funds requested for defense. In return, the Marine Corps will provide the Nation with 11 percent of the active U.S. Force manpower, 20 percent of the active divisions, and 20 percent of the tactical aviation.

Our most effective weapon system, however, and greatest asset to the Nation is the individual marine. They will continue to be the cornerstone of our readiness because their flexibility and adaptability have made many things go right when it doesn't necessarily appear so. Our marines are well trained, high spirited, and operationally ready. They provide the Nation with a highly responsible,

versatile, capable force to respond to contingencies across a broad spectrum in this uncertain world.

Our foremost duty is to ensure that the Marine Corps complies with our congressional mandate to be always ready at a high state of combat readiness. As always, your Corps of Marines is extremely grateful for the support of the Congress to achieve this goal.

I stand ready to answer your questions.

Mr. BATEMAN. Thank you.

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SECURITY COMMITTEE

STATEMENT OF
LIEUTENANT GENERAL ARTHUR C. BLADES
UNITED STATES MARINE CORPS
DEPUTY CHIEF OF STAFF FOR PLANS, POLICIES, AND OPERATIONS
BEFORE THE
SUBCOMMITTEE ON READINESS
HOUSE NATIONAL SECURITY COMMITTEE
16 MARCH 1995
CONCERNING
FORCE READINESS: CONCERNS, SOLUTIONS, INDICATORS

NOT FOR PUBLICATION UNTIL
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FORCE READINESS: CONCERNS, SOLUTIONS, INDICATORS**I. INTRODUCTION**

Mr. Chairman and Members of the Readiness Subcommittee, thank you for the invitation and opportunity to appear before you today to discuss Marine Corps readiness.

The Marine Corps is healthy and ready to meet its mission requirements. It continues to provide operationally ready, well trained, highly spirited, and versatile forces. Although the cold war has ended, the utility of this Nation's expeditionary forces in readiness to meet national security requirements has steadily increased. Our current total force strength of 174,000 active and 42,000 reserve is the minimum necessary to sustain an effective warfighting capability to meet our wartime and peacetime operational commitments.

This past year the Corps was involved in rescuing American citizens in Rwanda, maintaining the watch off Somalia, conducting migrant rescue and security operations in the Caribbean and ashore in Jamaica, Panama, Cuba, and Haiti, responding to crisis in the Northern Persian Gulf, projecting forces into Haiti and conducting air operations in Bosnia. Just this month, Marines completed the amphibious withdrawal of UN forces from Somalia. Maintaining core competencies across a broad spectrum of warfare requires a constant focus on readiness and training. Active end strength is about 13 percent below our average strength over the last two decades. Routinely one third of our battalions and squadrons are forward deployed and another third are preparing to deploy. Marine Corps investment accounts of modernization and procurement were reduced and in FY96 will average less than half the annual average amount normally allotted for the FY90 thru FY92. Growth is projected in FY97 and beyond. The shift of

resources from procurement, modernization, and infrastructure are being used to maintain current readiness. All commitments are being met with operationally ready and effective forces.

Marines exist to meet the needs of the Nation. We have in the past, are doing so now, and are committed to doing so in the future. Maintaining the active duty end strength at 174,000 is the minimum necessary to sustain an effective warfighting capability and to maintain daily peacetime operational commitments. Equipment procurement and the infrastructure to support the forces are also essential to maintaining readiness and the long term health of the Marine Corps.

Our forces are stretched. Contingency operations are normally subsidized by diverting funds from operation and maintenance accounts until reprogramming action is taken or supplemental funding is provided. Last year unanticipated, unbudgeted contingency operations, coupled with delays in receiving supplemental funding, resulted in a decrease in aviation training readiness.

The purpose of my statement today is to summarize Marine Corps readiness which will explain how we measure, assess, and monitor readiness; summarize the impact of contingency operations on force readiness; identify readiness shortfalls; discuss the adequacy and balance of proposed budgets on readiness; and conclude with a review of requirements to sustain future readiness levels.

II. READINESS TOPICS

1. MEASURING, ASSESSING, MONITORING, AND MAINTAINING READINESS

In 1990 the Commandant of the Marine Corps, recognized that: In this time of diminishing resources and force structure changes, we must ensure that our Corps is prepared to

meet the challenges of the 1990's and beyond. The Marine Corps was to be lighter with an active force organized for low and mid-intensity conflict, while the total force would be high-intensity conflict capable. He established a Readiness Task Force to identify readiness issues through analysis and on-site inspections and evaluations, and then to coordinate the necessary actions to increase operational preparedness. The Marine Corps readiness system was not to be solely a measure of inputs and activities but a management system designed to predict whether Marine forces were capable of accomplishing assigned missions.

A systematic approach is employed to measure and assess readiness. To measure readiness we combine experience and judgement with a range of existing analytical reports, tools, and predictive indicators. We are working to improve our analytical methods to measure, assess, monitor, and maintain readiness. However, readiness remains complex, elusive, and difficult to precisely quantify.

Currently, Marine Corps readiness assessment criteria include: (a) Status of Resources and Training System (SORTS); (b) Selected Statistical Indicators—equipment deficiencies, aircraft mission capable and full mission capable rates, and personnel indicators; (c) Evaluations, i.e. IG readiness assessments, Marine Corps Combat Readiness Evaluation System (MCCRES) results, and the Marine Corps Lessons Learned Systems (MCLLS) and (d) Predictive Readiness Efforts--indicators, current models, models in development.

Utilizing a multitude of systems (tools & indicators) we categorize pieces of the readiness equation along SORTS lines, i.e., personnel, training, and supplies/equipment. The results are then aggregated into an overall readiness assessment. This is not a science. The various tools are complementary. However, in the final analysis the assessment of readiness eventually becomes a

judgement call regarding the interpretation of data and facts. The commander's personal evaluation is an integral and important element in the assessment process.

2. ACCURACY AND RELIABILITY OF READINESS MEASUREMENT METHODOLOGY

SORTS is the DOD common standard for reporting personnel, supplies/equipment, training, and equipment condition. SORTS reports provide a relatively accurate assessment of readiness. It is a reliable "snapshot" of the commander's assessment at the time of the report. SORTS identifies potential deviations from the other Marine Corps reporting systems, particularly in equipment and supply. Training assessments, except for aviation aircrew Training and Readiness standards, are based upon the commander's judgement. Whenever feasible the SORTS reports are then compared to the information contained in the other reporting systems. Some deficiencies exists in SORTS. We are continuing to improve reporting accuracy and reliability within the limitations of the SORTS system.

A key aspect of maintaining readiness is the ability to measure and, to the extent possible, forecast it. Continuing efforts to improve readiness assessments are based on a pattern of attempting to quantify military readiness, then linking readiness to resources. This process involves objective, standards-based measurement coupled with the commanders' assessment of his unit's ability to perform the required skills and collective tasks that enable it to fight and win on today's battlefield. In order for emerging measurement methods to accurately reflect readiness levels, they must account for the integrated dynamics of manpower, equipment, operational commitments, and training requirements.

3. READINESS PREDICTABILITY AND THE IMPACT OF CONTINGENCIES

Unit readiness is directly related to a unit's rotational cycle that is driven by planned deployments and the Marine Corps' expeditionary nature . Within this planned cycle readiness peaks prior to deployment and decreases upon completion of the deployment.

On average, one-third of Marine infantry battalions and squadrons are deployed, while another third trains for deployment. Rotational Unit Deployment Plan (UDP) units and Marine Expeditionary Units (MEUs) conduct scheduled deployments in support of Forward Presence requirements. Between 1992-95, forward presence units on scheduled deployments participated in 41 contingency operations. This is 73 percent of all contingencies in which Marines participated during this time. During 1995 scheduled deployments have participated in 10 contingency operations.

Unscheduled commitments can interrupt the planned deployment cycle without degrading readiness. Readiness is maintained by adjusting deployment cycles, resourcing the deploying units and modifying training schedules.

During 1994 there were 17 unscheduled deployments in response to contingency operations. These units deployed at the same readiness levels as those in the scheduled deployments cycle. In 1995 there have already been 4 unscheduled contingency deployments.

Scheduled deployments are funded from Operation and Maintenance (O&M) accounts. Extension to the length of the scheduled deployment, additional requirements, and other expenditures in support of these contingencies are funded by supplemental appropriations and reprogramming. Timely and adequate funding is necessary to maintain essential operations and training programs.

O&M funding can be temporarily provided through internal reprogramming. However, supplemental funding is required to meet the unscheduled expenditures. Without the timely reimbursement of these resources, readiness is impacted in many areas. For example: scheduled maintenance is deferred, training schedules are interrupted, delayed, or canceled, and morale and quality of life are affected.

During fourth quarter FY94 a five thousand flight hour funding shortfall was experienced due to contingency operations. This required a standown of 5 squadrons and reduced flight operations for 6 others. Training readiness was degraded. These units are expected to return to their previous levels by the third quarter of this fiscal year. In FY95 funding for the supplemental request is essential to maintaining overall readiness.

4. CURRENT READINESS STATUS

We are ready today but tomorrow's readiness is a concern. Preserving readiness is a constant challenge to sustain the balance between providing ready forces today and recapitalizing and modernizing forces for tomorrow. Ultimately, readiness is proportional to funding. Yet, this funding must be carefully directed to take into account the specific nature of the challenges confronting the Marine Corps. For example, the high operating tempo of the past two years has placed particular demands on both manpower and equipment.

Since Marines and their resources have been used more intensively than forecasted, they must have greater resources devoted to their training and maintenance. At current and projected funding levels our future readiness -- recapitalization and modernization -- will have to remain a lower priority in order to pay for the current and near-term readiness of the force.

At currently projected funding levels maintaining force structure, facilities, and equipment into the 21st century will remain a significant challenge.

A significant amount of our current Marine Corps equipment was obtained in the 1980s. The average life expectancy of a major end item of ground equipment, for example, is approximately 15 years. Today, the average age of most of our equipment is 12 years. Failure to modernize will only increase the cost of repairs which are becoming more labor-intensive and expensive. Eventually this will have a negative impact on readiness. Today we are maintaining current readiness by deferring investment in the future. An appropriate temporary expedient, this is unsustainable in the long-term without incurring future readiness consequences. High operational deployment rates have increased equipment usage, accelerated aging, and increased maintenance requirements. Recapitalization and modernization are major readiness concerns.

5. THE ADEQUACY AND BALANCE OF THE FY96 BUDGET ON PRESENT AND FUTURE READINESS

The FY 96 budget is adequate to meet the planned and routine readiness needs of the Marine Corps through FY 97. The FY95 supplemental provides a funding buffer to meet unscheduled contingency operation resource demands; however with projected increases in procurement accounts, we remain concerned about the replacement of our aging combat essential equipment and weapons systems. Though the FY 96 budget and recent administration increases have significantly improved today's readiness picture, the "wellness" for tomorrow's Marine Corps is still a concern.

Whether scheduled or unscheduled operations, America expects its Marines to be ready to respond immediately. The price for this constant high state of readiness is that our first funding

priority must be to maintain current operational readiness. Events in Somalia, the Persian Gulf, Rwanda and Korea have underscored the wisdom of this priority.

At the same time, The Corps must prepare for the future. FY95 procurement funding is approximately \$500 million and is programmed to reach \$1 billion in the year 2001.

Programs and resources are critical components of Marine Corps readiness. Revitalizing and enhancing the capabilities of our forces are major initiatives. As our Nation's premier force-in-readiness, the Marine Corps has identified these key program requirements; Amphibious lift, the Advanced Amphibious Assault Vehicle, V-22 tilt-rotor aircraft, Maritime Prepositioning Force Enhancement, Shallow Water Mine Countermeasures, Naval Surface Fire Support, and the M1A1 Main Battle Tank. These resources are crucial to our future readiness.

The Marine Corps is a force of economy. The funds requested by the President to maintain the Marine Corps in FY96 are just under 6% of the total funds requested for defense. In return, the Corps will provide 11% of active U.S. force manpower, 20% of the active divisions, and 14% of tactical aviation. But more than any statistical portrayal, it will provide an unmatched national asset--Marines.

Our most effective weapons system and greatest asset is the individual Marine. Their training and leadership will continue to be the cornerstone of our readiness. The Corps remains committed to recruiting the finest young men and women our Nation has to offer. A strong and adequately resourced recruiting program is vital to this effort. Concurrently, a supporting establishment and infrastructure that helps attract and retain our Marines and their families requires a commitment to their quality of life. Housing, recreational amenities, facilities for child

care, family services, and community support centers are examples of areas that contribute to the morale and welfare of Marines and their families.

The Marine Corps is a manpower-intensive organization. The Marine Corps has built an efficient Total Force of 216,000 to execute its assigned national security responsibilities.

III. SUMMARY

In summary, today's Marine Corps is ready. Current funding is adequate to ensure a capable, ready, and relevant Marine Corps through FY97. However, the balance between current readiness and future readiness continues to be of concern. If projected budget levels continue as programmed with increased demands for deployments, Marine Corps readiness will decline. This will increase the level of risk to Marine forces that must go in harm's way.

The current budget is adequate to meet minimum funding requirements for routine operations and training. Without timely supplemental funding, we will have inadequate funds to afford the fiscal flexibility necessary to routinely handle unscheduled commitments or contingencies. Furthermore, current readiness has priority over future investment requirements. This is unsustainable without adversely impacting future readiness.

Today the Marine Corps is ready to execute its peacetime, wartime, and contingency tasks. We are ready because our individual Marines are ready. They are well-led, well-equipped, and well-trained. They believe in their Country and Corps. They believe that we care about them and their families. They believe that we will provide them with the resources to maintain and sustain force readiness. It is our duty to affirm their beliefs by all necessary actions to assure the certainty of their readiness in an uncertain world.

Mr. BATEMAN. General Ralston.

STATEMENT OF LT. GEN. JOSEPH W. RALSTON, U.S. AIR FORCE, DEPUTY CHIEF OF STAFF FOR PLANS AND OPERATIONS

General RALSTON. Mr. Chairman and members of the committee, it is certainly my pleasure to testify before you today on the status of Air Force readiness. I can tell you, up front, that today's Air Force is ready, and I believe we are proving that each day.

Our combat and mobility forces have appeared in a wide range of contingency operations throughout the world this past year. Whether it was relief aid for the victims of an earthquake in Japan, or the delivery of 80,000 tons of relief supplies to Bosnia, or 16,000 tons of supplies to Rwanda, Zaire, your Air Force was there.

Our fire components have also been actively involved throughout the world. Deny Flight in Bosnia, for example, we have flown over 16,000 sorties there, over 65,000 sorties in Southern Watch and Provide Comfort in Southwest Asia.

The most critical readiness requirements are the ones that help us keep our people ready for combat, give them sustainable equipment, and ensure that their capabilities remain relevant to the task at hand.

The same missions that demonstrate our readiness today also have the potential for adverse impact on our training. I use, as an example, when I was a young lieutenant on my first combat tour, the first day I got there, I lost my combat readiness status because I was no longer able to do all the things that you have to do to maintain your combat statistics. So we have a continuum from peacetime to combat, and as we are involved in military operations other than war, that approach combat, there is also a degradation in some part of our training.

For example, our air crews overflying Bosnia today are not doing the nuclear deliveries that they would do if they were back at home station, and that is duly reported in their readiness status.

My biggest concern is force modernization. That is the readiness of the future and, quite frankly, that is the area of greatest concern that we have. We urge your consideration of the budget that has been submitted. I must say that in the case of the C-17 and the F-22, those are types of systems, if we don't fund them adequately today we won't have the readiness of the future.

Mr. Chairman, I stand ready for any questions that you may have.

DEPARTMENT OF THE AIR FORCE
PRESENTATION TO THE COMMITTEE ON NATIONAL SECURITY
SUBCOMMITTEE ON MILITARY READINESS
UNITED STATES HOUSE OF REPRESENTATIVES

SUBJECT: FORCE READINESS CONCERNS AND SOLUTIONS

STATEMENT OF: LT GEN JOSEPH W. RALSTON
DEPUTY CHIEF OF STAFF FOR PLANS AND OPERATIONS
UNITED STATES AIR FORCE

16 MARCH 1995

NOT FOR PUBLICATION UNTIL RELEASED
BY THE COMMITTEE ON NATIONAL SECURITY
UNITED STATES HOUSE OF REPRESENTATIVES

Force Readiness Concerns and Solutions Hearing**Statement of Lieutenant General Ralston****Written Statement for the Record**

Thank you for the opportunity to talk to you about the readiness of our Air Force. The Secretary of Defense has set readiness as a top priority and testified that "... readiness should be the first priority and that other objectives could be traded off to ensure it." Our job is to provide America with an Air Force ready to sustain deterrence, control the high ground, supply rapid global mobility, and provide versatile combat capability. Working in conjunction with STRATCOM and NORAD our forces provide strategic nuclear deterrence and guard the home front. Our space assets support SPACECOM in their mission which controls the ultimate high ground, while Air Mobility Command provides TRANSCOM the mobility forces and Air Combat Command, Pacific Air Forces, and US Air Forces Europe provide the warfighting CINCs the bulk of the combat forces needed for our global presence missions.

To execute these missions, our combat forces must be robust and mission ready. They must be fully manned, highly trained, and equipped with adequate stocks of supplies and munitions. Additionally, enhanced strategic lift capacity, at peak readiness, is critical to deploy forces and reposition supplies and weapons. The bulk of our fighter and bomber units and their support forces will be required to deploy in support of two nearly simultaneous MRCs. Active Duty, Air Force Reserve (AFRES), and Air National Guard (ANG) forces alike must be fully ready at the outset of combat operations.

Is the Air Force ready today? Yes. We took the lead in rapidly cutting force structure to meet Bottom-Up Review (BUR), the Mobility Requirements Study-Bottom Up Review Update

(MRS-BURU) and Nuclear Posture Review requirements. In so doing, we freed resources to preserve readiness, support essential modernization, and provide a decent quality of life (QOL) for our people. Because we have carefully managed this aggressive drawdown, the Air Force is ready to carry out the military strategy--but with very little margin for adjustment to unprogrammed requirements.

The Air Force currently uses a variety of tools to assess readiness. They include:

- Status of Resources and Training System (SORTS) -- resource accounting
- Statistical Indicators -- looking for key leading indicators and warning signs
- Anecdotal Information -- from a myriad of sources
- Predictive Models -- primarily logistics models

Collectively, these readiness assessment tools provide a reasonably accurate barometer of force readiness. Currently, nearly 90 percent of our units are combat ready and possess the resources and training to accomplish their war-time missions. This percentage has remained fairly stable over the last 10 years.

While SORTS C levels and other measures reflect a high state of readiness, we are cautiously watching trends in people, training, equipment, and modernization. Each of these can be greatly influenced by funding levels.

People:

People are the Air Force's most important readiness asset. Because of that importance, we are fully dedicated to recruiting and retaining a top quality force, ensuring their quality of life, and providing them with top-notch combat training. We are beginning to see signs of stress on this invaluable resource, in terms of mission accomplishment and recruiting.

The propensity for young Americans to enlist is down from the levels in 1990. Over the last four years, we have seen slight reductions in the quality of recruits and although we are meeting our monthly recruiting goals, they are becoming more difficult. Additionally, there has been a decline in numbers of applicants for the Air Force Academy and AFROTC scholarships. The recently enacted boost to our advertising budget should help, but we will continue to monitor these trends to ensure the quality of tomorrow's force.

Operations Tempo (OPTEMPO) and Personnel Tempo (PERSTEMPO) are other areas we are watching closely. The Air Force defines OPTEMPO as the rate of unit activity to complete unit tasking and training. It is a measure of unit workload and describes the pace of operations in Air Force units. PERSTEMPO is a subset of OPTEMPO and measures personnel activity. It is a fact that even as the Air Force has reduced its end strength by 34 percent since 1986, our deployments have increased four-fold. Temporary duty (TDY) rates provide an indication of the operational workload on our people. During the last 5 years, we have seen a dramatic increase in the number of people TDY in support of Military Operations Other Than War (MOOTW). Although only a small percentage of our total force is deployed, there are a few key weapon systems that are experiencing dramatically increased TDY rates. For example, aircrews in some of our highest-tasked units like RIVET JOINT, Special Operations, and Rescue were TDY over 180 days last year. An excessive PERSTEMPO can have repercussions in recruiting, retention, and quality of life.

To avoid these repercussions, we have set in motion several initiatives to mitigate the impact of high PERSTEMPO. For example, we increased the use of AFRES and ANG units to supplement the forces available for world-wide taskings. These affordable, accessible, and highly capable warriors are integral to our fighting force structure. They are currently making key

contributions in peacetime contingency operations around the world. We simply could not meet TRANSCOM's requirements without Guard and Reserve mobility support. Similarly, Guard and Reserve fighter forces are now deployed for peacetime contingency operations in addition to meeting their combat training commitments. Likewise, our bomber force now includes reserve components, with a Guard squadron at McConnell AFB, Kansas, and a Reserve squadron at Barksdale AFB, Louisiana, working towards initial operational capability. Another Guard squadron of B-1B's will begin standing up at Robins AFB, Georgia, next year. In short, our citizen airmen are assuming a greatly expanded and much more active role in every aspect of Air Force operations.

We are also optimizing use of Air Force active duty forces. We are distributing active duty deployment burdens through our Palace Tenure program. This program tasks people from across all commands and cross-utilizes support personnel to spread the workload among the units. At the same time, we are modifying our Personnel Data System to collect TDY data on each member. This will allow us to better manage PERSTEMPO at the individual level, credit people for their deployed duty, and increase the equity in our remote and overseas assignments.

Military service places unique stresses on our members and their families. The Air Force is striving to care for our people through initiatives designed to provide the quality of life needed to reduce the impact of these stresses while maintaining readiness. These initiatives improve readiness by: helping to recruit quality people, retaining our best people, and enabling people to deploy with the assurance their families are being cared for. For example, our Family Support Centers (FSC) have implemented a number of programs to ease the impact on the families of high PERSTEMPO members. FSCs have been trained to respond to family needs before, during, and after mobilization due to operational missions, accidents, or natural disasters.

Training:

To be combat ready our people must remain highly trained. Realistic combat training is not a luxury, but a necessity. We continue to train our forces the way they will fight. Short of actual combat, there is no better substitute than realistic training. We have fully funded our combat training programs. What began 20 years ago as a modest exercise concept known as Red Flag has since evolved into a system of worldwide flag exercises which make up the backbone of Air Force readiness. What we did in DESERT STORM was possible in large part because of our flag exercise training. Similarly, the Air Force is a full partner in all major Army exercises at the National Training and Joint Readiness Training Centers. Finally, we bring our high training standards to more than 50 major joint and combined exercises around the globe each year.

A critical complement to exercise training is realistic day-to-day training. Our daily operations increasingly emphasize composite and joint force operations to build on basic skills. We also enhance combat training through simulation, which provides a cost-effective and helpful supplement to flight operations. But teamwork and realistic combat training are essential to achieving warfighting excellence. We will continue to prepare our people for the challenges and rigors of combat.

Our participation in contingency operations has challenged our ability to provide those training opportunities. There are some adverse impacts as a result of our MOOTW. For example, neither F-15E squadron in England was available to take part in Maple Flag or the Weapon System Evaluation Program in 1994 because of participation in contingency operations. Additionally, several other heavily tasked USAFE units required waivers to peacetime currency training events to maintain mission ready status. The loss of these training opportunities is a missed chance to

practice essential combat skills--highly perishable skills which are not generally used during operations in support of humanitarian and peacekeeping missions. Similar challenges affect the other commands. The only substitute for combat experience is realistic combat training and we are striving to ensure that impact of OPTEMPO is minimized through frequent unit rotations and expanded use of the Guard and Reserves in contingency operations.

Equipment:

In addition to the resources freed by our aggressive downsizing of force structure, we enhanced supportability and sustainability through better resource management. We have seen successes in several areas. First, readiness forecasting has been strengthened. We measure readiness on a daily basis and report those assessments throughout the chain of command. Our Status of Resources and Training System provides important readiness snapshots of each unit's current health, as well as the unit commander's forecast. This system helps us evaluate the impact of resource decisions as well as uncover potential weak areas before readiness erodes. While we have yet to develop a comprehensive predictive model that can tell us where to invest our resources for the optimum pay-off in readiness or what increase in readiness will result from increased spending, we have had some success with several logistics models. By analyzing several variables, the Weapon System Management Information System (WSMIS) model gives us the ability to predict mission capable rates and sortie generation capability. The Funding Availability Multi-Method Allocator for Spares (FAMMAS) model assesses the impact of various spares funding levels on the peace-time readiness of our weapon systems. Likewise, the Logistics Assessment Model (LAM) provides a readiness assessment by measuring our ability to perform our war-time tasking.

We are significantly changing the way we support our weapon systems. For example, "Lean Logistics" is an integrated effort among maintenance, supply, and transportation systems designed to provide the right part, at the right time, at the best price to the user. Lean logistics streamlines business by removing a whole tier of maintenance support for highly reliable systems and emulates commercial package carriers for transporting material. With this system, we are better prepared to support forces at home or abroad with less investment in support, manpower, infrastructure, and inventories. This system has already paid dividends. For example, we cut repair pipeline times by 75 percent.

Some equipment readiness problems are very difficult to predict and must be managed as they occur. The recent F-16 F110-GE-100/129 engine seal problem is but one example. When we recognized we had a problem, we directed a precautionary stand down. Our engineers were then free to isolate the problem, design an interim fix, adjust inspection standards and schedules to get affected portions of the fleet flying again. They then developed a long term solution which is now undergoing rigorous testing at General Electric and our Arnold Engineering and Development Center.

All of our engines are designed to balance performance, reliability, maintenance, and cost. We have systems designed to measure these parameters and make refinements in hardware, software, and procedures to optimize this balance throughout each engine's life cycle. Furthermore, we continue to look for other ways to improve prediction of like problems and strengthen management processes that correct identified deficiencies, such as the Chief of Staff Engine Review, Current Engine Design Reviews, and ground-breaking studies such as our High-Cycle Fatigue Baseline Study.

Another warning of potential readiness problems is the declining inventory of spare parts. We have experienced a few spot shortages of readiness spare parts. RSP fill rates for strategic airlift are down from the levels of 3 years ago and spot shortages of spare parts have caused declines in the Mission Capable rates of our C-5 and F-15E fleets. Predictive logistics models show that these factors will produce a 1-2 percent degradation in the Air Force composite MC rate through the end of FY 95 before the trend starts to reverse. This is an area we are working hard. We requested and received additional funding to increase spare parts procurement in FY 93 and FY 94. These efforts to improve funding will soon be evident when MC rates begin improving by the end of the fiscal year. Additionally, the FY 96 President's Budget has added funds to improve the reliability of some of the older, high failure rate parts.

Contingency operations are having a detrimental effect on equipment availability. As stocks of prepositioned bare base assets are consumed, they are no longer available for an MRC tasking. For example, as a direct result of ongoing taskings, Harvest Falcon bare base sets have an MC rate of only 48 percent for Housekeeping sets, 47 percent for Industrial sets, 40 percent for Flight Line sets, and 16 percent for follow-on Flight Line packages. The remaining sets are either in use or in reconstitution. A similar situation exists for Harvest Eagle bare base sets and Air Transportable Hospitals. While we are working hard to reconstitute these limited assets, worldwide requirements continue to deplete them nearly as fast as they can be rebuilt.

Modernization:

The Air Force is sustaining investment accounts at an historically low level of total obligation authority and is at a point where it can not reduce modernization further and still sustain a credible combat capability through the first 10-15 years of the next century. We took delivery of

our last F-15E in September 1994 and will take delivery of our last planned block 50 F-16 early in 1997. Our current force is ready and sustainable but we must look toward the future. The F-22, C-17, and JSTARS are core modernization programs and critical to tomorrow's readiness.

The F-22 is much more than just another Air Force modernization program--it is a national asset our country needs. Its rapid deployability, stealth characteristics, supersonic cruise, high maneuverability, and advanced avionics all provide the qualitative edge required to fight outnumbered against future opponents and win. The capacity to engage at the time and place of our choosing, and to achieve first-look, first-shot, first-kill decisions, underwrites the capabilities of all follow-on forces in an MRC. Finally, the F-22 will be extremely valuable penetrating enemy defenses to drop precision guided bombs once air superiority is attained.

The Air Force is also committed to the modernization of its strategic lift capability and is supporting the C-17/Non Developmental Airlift Aircraft Defense Acquisition Board in November 1995. This effort must be sustained. The ability of a joint force commander to prevail in an MRC depends on TRANSCOM's capacity to rapidly inject forces into the region. This is why the C-17 is the centerpiece of our airlift modernization efforts.

JSTARS is one of our critical force enablers, which will provide America the ability to anticipate crises and prepare appropriate responses to them. This system will significantly increase the situational awareness of military leaders and military forces at all echelons. This enhanced situational awareness will improve our ability to generate options before crises erupt and to apply the appropriate range of military force should that option become necessary. This ranks JSTARS at the top of our modernization priorities for information-based technology systems.

The Air Force modernization plan was sequenced to meet fiscal constraints and avoid an out-year bow wave. While we are confident of our readiness today, we need to maintain an

investment strategy that ensures our Air Force is relevant tomorrow. We can not afford to maintain today's readiness at the expense of modernization. To do so, mortgages tomorrow's readiness.

Contingency Funding:

Funding levels have a major impact on our ability to maintain the balance between readiness support, force structure, modernization, and QOL. Undue delays in operation and maintenance (O&M) reimbursement for contingency operations will have a negative effect on readiness and QOL. Since the Air Force is not allowed to program for such operations, it must absorb those costs out of other accounts, primarily O&M, and then request reimbursement after the fact. During execution of a contingency operation, funding is "borrowed" from fourth quarter accounts. Any undue delay in reimbursement to the Air Force for contingency operations will not only "break" the O&M account, but will also have a direct impact on readiness and quality of life. The backlog in Real Property Maintenance has reached a point that the Air Force will be hard pressed to absorb further unprogrammed expenses from that area. Consequently, unreimbursed contingency expenses could force the Air Force to curtail flying, increase depot backlogs, and cut spares purchases--things which are absolutely critical to maintaining readiness. Some examples of the drastic measures required may include:

- 50 percent reduction in flying hours during the last quarter
- Delaying aircraft Programmed Depot Maintenance--this may create a bow wave of maintenance requirements that, if not funded in the future, will cause aircraft to be grounded
- Delaying engine overhauls--our engine stock levels may be decreased below peace-time/war-time operational minimums

- Stopping second destination transportation which would result in curtailing movement of engines, base closure assets, War Reserve Material reconstitution, aerospace ground equipment, and depot bound helicopters
- Deferring fourth quarter real property maintenance projects such as: runway repairs, aircraft parking apron repairs, electrical distribution system repairs, taxiway and airfield lighting repairs

A key to maintaining Air Force readiness is a stable O&M budget. Instability and delays in contingency funding in the future have the potential to upset the balance between force structure and readiness. O&M funding instability would give us very little "flex" to deal with spot readiness problems such as C-5 engine shortages and F100-series engine problems. These problems are currently manageable, but there is little margin for budget shortfalls. We need continued stability in our O&M accounts, including timely funding for contingency operations if we are to retain our ability to manage these type problems.

Conclusion

Today, I can confidently say the Air Force is ready to respond to two nearly simultaneous MRCs. However, we have accepted an increased risk level throughout the Future Years Defense Plan (FYDP). We have accepted a prudent level of risk; however, there is little to no margin for further adjustment. We have reached the point where further reductions or delays in contingency funding will have an adverse impact on our ability to provide a ready force. The risk level also demands that we closely monitor developing trends. Right now we are watching mission capable rates, cannibalization rates, Readiness Spares Package (RSP) fill rates, and backlogs closely. We

want to catch any potential problems early and make adjustments to maintain the current level of readiness.

Today's Air Force is ready, primarily because of our decision to accelerate force structure reductions to BUR levels, aggressively divest costly infrastructure, and streamline our organization. These timely managerial decisions have allowed us to maintain readiness during a period of unprecedented downsizing and a steep decline in funding. We have taken these deliberate steps as good stewards of our resources, but there is little slack remaining for unplanned, unprogrammed requirements.

We have immediate concerns for quality of life, high PERSTEMPO, the impact of contingency operations on training, and equipment readiness. Additionally, timely supplemental funding for contingency operations is critical if we are to avoid a major impact on force readiness.

For the future, we must insist on continued funding for our core modernization and force structure sustainment programs. We can not afford to mortgage tomorrow's readiness to pay for readiness today.

Mr. BATEMAN. I want to thank all of you on the panel.

One of the matters of concern to me is not so much the immediate state of readiness, even though I think from those I have talked to and what I have been hearing at hearings, it is where are we headed in terms of near- and especially long-term readiness.

Secretary Dorn's statement this morning speaks to the \$39 billion procurement budget for fiscal year 1996 and how that is projected to go up 47 percent, I think it is in 2001 or 2002. In my view, we can't wait that long to begin doing things to assure that we keep our equipment modern and that we maintain our technological advantage, and these represent very serious threats in terms of sustaining a state of readiness.

I am very intrigued, General Ralston, with your comments regarding your fighter pilots doing missions such as Bosnia, and, I assume, the Iraqi missions as combat pilots, that their training is degraded. How long can you go before that becomes a problem?

General RALSTON. If we kept them there for a very long period of time, it definitely would be a problem. The way we are trying to address that is, we are trying to rotate them out after 90 days and replace them.

For example, the Hawaii National Guard and New Orleans National Guard have deployed to Bosnia to relieve our F-15's that were there. Next month, we will deploy F-15's out of Alaska to Turkey, again to relieve the F-15 units that are there so they can go back and pick up their normal amount of training. We are trying to address that by rotating the force through there. However, there is only so much you can do in that regard.

Mr. BATEMAN. You rotate them after 90 days, or try to do so, as near as possible to that, but do they go back to their original home installation? You can't send them immediately to a Red Flag or some other training exercise; I guess you let them have some time home with their families before they go TDY for training?

General RALSTON. That is a problem. I can give you an example of an F-15 squadron in England; because they were deployed to Bosnia, we had to cancel out their Maple Flag and their Red Flag. That was lost training for them. We substituted a unit for them, and even today we have that squadron at Nellis at Red Flag.

So we are trying to accommodate that and make up for it, but it puts a PERSTEMPO issue—the same people who just got back from Bosnia now are deploying to Nevada.

Mr. BATEMAN. Each of you have given us, I think, a red flag in terms of what the future holds in the context of modernization.

Admiral Lopez, when I look at your blue suit and think about the size of the Navy today as it is projected to be, you can't get there 10 to 15 years from now on anything like the capital budget that the Navy is operating on today. You can't maintain a modern, capable fleet of 30 vessels if you are only going to build three a year.

I take it all of you have the view that the fiscal year 1996 budget, as proposed, fully meets all of the steaming hours, flying hours, tank miles and the other ingredients that we normally look to as what you have to budget monetarily in order to protect readiness. Do you all think that amount of money is fully adequate?

General BLACKWELL. Speaking for the Army, that is a true statement. The OPTEMPO for fiscal year 1996 in the budget that has

been submitted is, in fact, fully funded, with the caveats, as you have already mentioned, pertaining to the trade-offs you make in terms of facilities and modernization.

Mr. BATEMAN. To what extent do you have an identifiable backlog of facility maintenance and equipment maintenance that has been deferred as a result of having to fund contingency operations? Is that a problem for any of you?

Admiral LOPEZ. I believe it is a problem to some extent, although the Congress gave us an emergency supplemental at the end of last year. For instance, we were going to defer 14 ships from 1994 to 1995, and we only had to defer 5. We have picked up those. But, as of today, we have deferred two more ships for this year and we will have to defer much more maintenance and training if we do not receive the supplemental; and that is just for normal operations.

That is what we plan for, OPTEMPO, three areas. If we have a repeat of next year, with the same level of contingencies or even close to it, then we would have a very difficult time meeting that without funding support.

Mr. BATEMAN. Well, you are now approaching the end of the second quarter of fiscal year 1995, and you still don't have the supplemental. Soon you will be well into the third quarter.

And the longer it goes, the more turbulence it is creating in terms of how you manage your resources and what impacts they may have either on immediate readiness or on further deferral of maintenance, both facilities and equipment.

The budget for fiscal year 1996 is adequate if we don't have unforeseen contingencies, but we are going to have unforeseen contingencies in 1996. But, if the Congress found that more money needed to be injected into the DOD budget, I take it you would not recommend that money going into operation and maintenance, but instead putting it in modernization?

Admiral LOPEZ. Yes.

General RALSTON. Yes, Mr. Chairman. From the Air Force perspective, that is correct.

General BLACKWELL. Sir, from the Army perspective, additional funds focused in the areas of modernization and infrastructure revitalization—specifically in modernization, war reserve ammunition, trucks are examples of high priorities for modernization in the future. The comment was made earlier pertaining to the age of the fleet. Our 2.5 ton trucks are approaching 24 years in age.

Mr. BATEMAN. I am very familiar with that problem. I hope we can help with it.

We need to run to vote. We will come back immediately.

Mr. SISISKY. I won't be able to come back.

General Blackwell, I was told from the DOD that all the services were all right next year except for the Army; that you may have a \$500 million shortfall. I may have misunderstood that.

General BLACKWELL. In terms of operational readiness?

Mr. SISISKY. Yes.

General BLACKWELL. No, sir. We are fully funded in terms of near-term readiness in 1996.

Mr. BATEMAN. Does the other gentleman from Virginia have questions? If so, we can come back.

Mr. PICKETT. No, we can excuse these fine gentlemen. I would like one quick thing.

Admiral Lopez, you say that you are funded for readiness. Come October 1, 1995, and you have to continue the Guantanamo operation, where is that money going to come from, \$1 million a day?

Admiral LOPEZ. We will have to do one of two things, sir. We will have to look inside our O&M account or we will have to come to you and request reprogramming. That will be our only choice, unless we reprogram; and then we will take away from the future.

Mr. PICKETT. Is that the same for the other services? Will you have to take it out of the O&M accounts if you don't get a supplemental?

Mr. BATEMAN. We will submit additional questions the members of the committee may have, so you can respond to them for the record.

[The following questions were submitted for the record:]

FY95 TRAINING, MAINTENANCE, BASE OPS AND QUALITY OF LIFE

Question: At the beginning of FY 95, were all your requirements for training, maintenance, base operations and quality of life fully funded? Do you anticipate having to divert training or maintenance dollars to other unfunded or underfunded requirements in FY 95?

Answer: No, none of these requirements were fully funded at the beginning of FY95, nor are they currently fully funded.

In the area of training, while unit training at the Fleet Marine Forces is fully funded, we remain concerned about underfinancing of Specialized Skills Training which covers courses of instruction required to acquire the requisite skills necessary to meet the minimum requirements of a Military Occupational Specialty (MOS) such as Food Service Basic, Motor Vehicle Operator, and Construction Engineer Courses for our Marines. While Congress added \$9 million specifically for skill progression training as well as \$5 million for friendly fire training, we still remain short approximately \$5 million in FY95. We intend to address this shortfall in the forthcoming Omnibus Reprogramming. All training requirements have been fully funded in our FY 96 budget request.

In terms of depot maintenance, in part thanks to a Congressional plus up of \$57 million, depot maintenance that is executable in FY95 is fully funded. FY95, when combined with the FY96 budget request, will allow us to meet our desired backlog of approximately \$50 million by FY 98.

Base Operations addresses both the cost of running our bases to include operating physical plant, in terms of utilities; organic supply operations; vehicle operation and maintenance; community support services; as well as maintenance of real property. Neither base operations nor maintenance of real property (MRP) is fully financed; in fact, we remain significantly short of fully supporting these requirements. In the case of general base operations, our shortfall is approximately \$74 million for active and reserve forces and MRP is underfunded by approximately \$145 million. Because of fiscal constraints, we have no plans to reprogram into these areas. Additionally, due to fiscal constraints, we continue to reflect significant shortfalls in these areas in FY 96. We are short approximately \$90 million in base operations and \$176 million in MRP. This is particularly significant in that our backlog of maintenance and repair (BMAR) of our physical plant is growing at approximately \$100 million per year and reaches \$1 billion by FY 98.

Quality of Life is not fully funded. We are short in terms of appropriated funds being provided for morale, welfare and recreation (MWR) support. We have a deficit of 7,744 family housing units, we are short approximately 14,000 spaces in our barracks, and we are unable to provide enough personnel support equipment for our Marines. Again, this is due to fiscal constraints. However, the FY96 budget dramatically improves appropriated fund support of MWR and begins to address some of our housing and barracks shortfalls, as well as personnel support equipment requirements.

We will not divert training funds to other unfunded or underfunded requirements in FY 95. However, due to a lack of flexibility, we may be forced to divert maintenance of real property funding to other higher priority requirements. This, of course, will cause an increase to BMAR.

FY95 SUPPLEMENTAL

Question: Does the FY 95 supplemental request cover all of your Service's unfunded contingency operations costs? If not, how much remains unfunded?

Answer: The FY95 supplemental fully supports the contingency requirements we have identified.

UNFUNDED READINESS REQUIREMENTS

Question: What readiness requirements are unfunded or underfunded in the FY 96 budget, and what are the near-term and long-term readiness impacts?

Answer: Our readiness requirements cut across areas that have a near-term impact on readiness in Operations and Maintenance (both active and reserve), and long-term readiness concerns in terms of the pace of acquisition of equipment for both ground and aviation units. Following are requirements by major category:

<u>CATEGORY</u>	<u>\$ IN MILLIONS</u>
Recruiting and Advertising.....	7
Equipment Investment.....	352
(Ammo and Ground/Infantry Equip)	
Facilities Investment.....	241
(Maintenance of Real Property..176)	
(MilCon..... 18)	
(Base Operating Support..... 47)	
Training & Exercises.....	27
Quality of Life.....	95
(Family Housing Construction....51)	
(BEQ Construction..... 7)	
(Family Programs.....37)	
Depot Maintenance.....	54
Reserve Issues.....	32
Amphibious Support Ships.....	320
(Two additional MPF(E) Ships...220)	
(LPD-17 Long Lead Items.....100)	
Aviation.....	881
(AH-1W Qty 8.....101)	
(AV8B Reman Qty 14.....420)	
(C-130J Qty 4.....160)	
(CH-53 Qty 8 (Reserves).....200)	
AAAV.....	40

In spite of these unfunded requirements, this budget funds an operationally effective and ready Marine Corps today. However, at current funding levels, we cannot guarantee a ready Marine Corps beyond FY 97. If these funding levels were to be maintained in the outyears, the consequences would be a Marine Corps whose ground forces would be short of modernized equipment and a base structure that would continue to deteriorate.

The Procurement, Marine Corps (PMC) account in the budget years is as low as it has been since 1972. In constant terms, we have averaged \$1.2 - \$1.4 billion per year for procurement of equipment to support our ground forces. Nowhere in this budget, including the outyears, do we hit that level. Our FY 96 request of \$474 million permits us to fund only our most essential modernization and sustainability requirements.

Backlog of maintenance and repair (BMAR) of our physical plant is growing at approximately \$100 million per year and reaches \$1 billion by FY 98.

READINESS REQUIREMENTS

Question: What readiness requirements are not being met due to a lack of, or constraint on, resources?

Answer: This budget funds an operationally effective and ready Marine Corps today. However, at current funding levels, we cannot guarantee a ready Marine Corps beyond FY97. If these funding levels were to be maintained in the outyears, the consequences would be a Marine Corps whose ground forces would be short of modernized equipment and a base structure that would continue to deteriorate.

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Backlog of maintenance and repair (BMAR) of our physical plant is growing at approximately \$100 million per year and reaches \$1 billion by FY 98.

Question: If the current pace of operations continues, what do you see that needs to be done to ensure force readiness on the near-term and long-term.

Answer: In the short term, we need to ensure adequate O&M funding and obtain timely reimbursement for unscheduled contingency operations. In the long term, adequate resources must be available to support necessary operations and training while investing in modernization programs, infrastructure support, replenishing ammunition stocks.

Question: (a) What is the impact of high personnel tempos on personnel and training? Please comment on the affect high personnel tempo has on quality of life, morale, retention, training in the core competencies, training exercises canceled, and granting of waivers. (b) Have current readiness reporting guidelines been modified to recognize the importance of such factors? If so, what are the standards against which current conditions are to measure?

Answer: Whether in a unit that deploys or a non-deploying supporting unit, an increase in operational tempo affects all Marines. Unscheduled deployments mean time away from home.

Commanders manage this time and adjust schedules of units to ensure no unit is over committed and thus unable to meet its readiness level. It may require assigning a different type unit to participate in an exercise; such as 1st Battalion 10th Marines, an artillery unit, did in Exercise Strong Resolve. All primary units will either participating in scheduled or unscheduled operations, just returning from a deployment or are in the mist of their training cycle preparing to deploy. This increase in operations also required additional maintenance, particularly as equipment begins to age.

Because of real-world contingencies, the Second Marine Division, lost three battalion-size training opportunities since July 1994. In October, 1994, CAX 1&2 -95 were canceled in order to ensure forces were available for Operation Vigilant Warrior.

Ultimately, prolong increase in operational tempo will affect quality of life -- particularly for the single parent or Marines with families.

Answer: (b) No.

Question: From your perspective, what are the most serious readiness trends?

Answer: Insufficient funds to meet modernization and infrastructure investments requirements. Procurement of ammunition and modernization of ground equipment are at historical lows. This is a near term concern. At current funding levels, the "health" of the Corps can only be assured through FY97. While we have allocated increased funding to investment in the maintenance and repair of our bases and stations, the backlog in this critical area continues to grow.

READINESS RESOURCES

Question: In your personal view, if additional resources were to be provided for readiness, where would you place the emphasis?

Answer: Our emphasis would be primarily in the form of enhanced investment in equipment for our ground forces and maintenance of real property.

The Procurement, Marine Corps (PMC) account, which buys things such as ammunition, trucks, communication equipment, etc. is as low as it has been since 1972. In constant terms, we have averaged \$1.2 - \$1.4 billion per year for procurement of equipment to support our ground forces. Nowhere in this budget, including the outyears, do we hit that level. Our FY 96 request of \$474 million permits us to fund only our most essential modernization and sustainability requirements.

Backlog of maintenance and repair (BMAR) of our physical plant is growing at approximately \$100 million per year and reaches \$1 billion by FY 98.

Other areas which affect readiness include recruiting and advertising, depot maintenance, quality of life and base operating support. There are similar requirements for both active and reserve forces.

Question: It is our understanding that there is a significant lag time between the time a unit is reporting readiness difficulties and the time the senior leadership is informed and acts. Is there a need for more expedited notification to senior military leadership to ensure timely remedial action?

Answer: The time lag in question is that resident within the SORTS system. This is a combination of review and technical processes, the latter associated with limited data entry locations, and is well known. Within the Marine Corps SORTS is one vehicle to gauge readiness. Unit readiness is a continual assessment by the commander. It is internal management of assets and external assistance when necessary. External assistance is usually associated with unscheduled contingency tasking out of the known deployment life cycle. Assistance comes from all levels within the unit's chain of command to correct personnel or equipment deficiencies, and can culminate with Service headquarters' action.

Question: A recent DOD readiness initiative was the creation of the Senior Readiness Oversight Council. Please discuss the specific readiness indicators that are presented to the Council by the Service Chiefs. What significant contribution has the Council made in dealing with readiness issues? What are some of the tangible items that have emerged from the process?

Answer: The Senior Readiness Oversight Council (SROC) is the monthly forum wherein Service Chiefs and Chairman present their assessment to DOD senior leaders on the state of Service and CINC preparedness. This is a macro summary of readiness presented by Service Operations Deputies in the Joint Monthly Readiness Review (JMRR) which assesses readiness against scenarios. The primary function of the SROC is to heighten mutual awareness and understanding regarding readiness issues addressed by the Service Chiefs and Chairman.

Question: Each Service maintains an IG operation at the cost of hundreds of millions of dollars to review and inspect the armed services on a wide range of issues. Is there an opportunity to make this structure perform a more active oversight role in assessing readiness?

Answer: Yes, and the Marine Corps has already taken those steps. In October 1990, the 29th Commandant of the Marine Corps, General A. M. Gray, designated the Inspector General of the Marine Corps as the focal point at Headquarters, Marine Corps for gauging operational readiness afloat and ashore. Since that time, the Inspector General of the Marine Corps has maintained an aggressive role in ensuring that Marine forces maintain a high degree of readiness to deploy responsively, engage quickly, and sustain themselves in combat for whatever period is required. As the Commandant's "eyes and ears," the Inspector General is chartered to search out and analyze "root causes" that inhibit or reduce the readiness of Marine forces, and then coordinate the requisite remedial actions. The Inspector General also conducts periodic, short-notice readiness assessment visits to operational units. These visits are extremely useful in identifying and subsequently focusing HQMC attention on correcting systemic problems that inhibit or degrade readiness at the unit level.

Mr. Tejeda: I would like to ask all our panelists how much "O&M" money -- in addition to what was requested in the budget -- would you need to feel comfortable? And, into which specific accounts would this money go?

VADM Lopez: The Department of the Navy budget for FY 1996 is fully funded for all known requirements. However, no funding is budgeted for contingency operations since it is impossible to anticipate the nature of the costs for these operations. In the event that the Navy is directed to perform contingency operations in FY 1996, the Navy will be required to divert funding from other Operation and Maintenance programs, absent an emergency supplemental appropriation.

Question: At the beginning of FY 95 were all your requirements for training maintenance, base operations and quality of life fully funded? If not, what were the shortfalls? Do you anticipate having to divert training or maintenance dollars to other unfunded or underfunded requirements in FY 95?

VADM Lopez: The Department of the Navy's requirements in the areas of training, maintenance, base operations and quality of life are funded in FY 95 to the minimum sustainable level. However, the Navy is prepared to divert fleet training and maintenance funding to cover shortfalls in the flying hour program and the incremental costs of contingency operations beginning March 31 unless an emergency supplemental appropriation is provided.

Question: Does the FY 95 supplemental request cover all of your service's unfunded contingency operations costs? If not, how much remains unfunded?

VADM Lopez: The supplemental request did not include \$30 million for migrant quality of life improvements at Guantanamo, including educational and vocational programs, furnishing improvements and facility improvements to reduce migrant occupancy per tent, which have subsequently been identified. The Navy has also identified \$41.5 million in additional subsistence costs for Cuban migrants not included in the supplemental request. Finally, the supplemental request does not reflect the revised additional costs of flying hours incurred by the Navy in support of operations in Southwest Asia, Bosnia, and Somalia which total \$19.7 million. Failure to provide funding in the supplemental will therefore result in reductions to other readiness accounts.

Impact of FY 96 Budget Unfunded Readiness Requirements

Question: What readiness requirements are unfunded or underfunded in the FY 96 budget, and what are the near-term and long-term readiness impacts?

VADM Lopez: We have not unfunded or underfunded any readiness requirements in the FY 96 budget. We consider today's readiness a "must fund" issue. Our budget submission is one which contains some manageable readiness risk but still prudently funds current and near-term readiness to required levels.

While our focus has been on current and near-term readiness, we recognize that if we do not modernize at a higher rate we ultimately place future readiness at risks. Modernization of technologically advanced ships and aircraft is key to our Navy. In recent years we have reduced ship procurement rates by 72% and aircraft procurement by 70%. Those downward rates in procurement cannot continue without putting our long-term readiness at risk. If we are to ensure that we have a Navy able to answer the call, we must continue to procure ships and aircraft that make our force structure one which modern and technologically superior.

Readiness requirements not be met

Question: What readiness requirements are not being met due to a lack of, or constraint on resources?

VADM Lopez: Navy readiness today is at acceptable levels but there remains a concern for the future. All our readiness requirements are being met by our FY 96 budget submission. That budget is one which preserves current and near-term readiness and ensures future readiness is not placed at risk.

The keys to preserving readiness are our continued emphasis on personnel quality of life and recapitalization of our force structure. Preservation of current and near-term readiness requires that we continue and near-term readiness requires that we are promptly reimbursed for unplanned, contingency operations. Future readiness will be maintained if we continue to recapitalize our smaller force structure.

Ensuring near and long-term readiness given current pace of operations

Question: If the current pace of operations continues, what do you see that needs to be done to ensure force readiness both in the near-term and long-term?

VADM Lopez: The current pace of operations leads to the following challenges to force readiness:

- Increased readiness costs due to unforeseen contingency operations;
- Higher OPTEMPO/PERSTEMPO due to unforeseen contingency operations that may impact our ability to retain high quality people;
- Lack of funds to train units not participating in unforeseen contingency operations that may increase the number of units not fully ready.

The key to preserving readiness, at the current pace of operations, is our continued emphasis on personnel quality of life and recapitalization of our force structure. Preservation of current and near-term readiness requires that we continue to attain our OPTEMPO and PERSTEMPO goals and are promptly reimbursed for unplanned, contingency operations. Future readiness will be maintained if we continue to recapitalize our smaller force structure. The size of our force is also a major factor in near and long-term readiness of our Navy.

Deployments are a fact of life in our Navy and our personnel expect to deploy, look forward to the training and experience they gain on forward deployments and, most importantly, do the Nation's important business when they are on forward deployment. Forward deployments are routine for naval forces and Navy men and women....they are what we do. If, however, we become too small, we run the risk of increasing the duration of deployments and their frequency beyond the limits of endurance of our people and our equipment. That is one of the key lessons of earlier readiness problems and it was a major factor in the readiness problems of the 1970's.

Question: What is the impact of high personnel tempo on personnel and training? Please comment on the effect high personnel tempo has on quality of life, morale, retention, training in core competencies, training exercises canceled, and granting of waivers. Have current readiness reporting guidelines been modified to recognize the importance of such factors? If so, what are the standards against which current conditions are measured?

VADM Lopez: Owing to the Navy's forward presence posture and long-standing PERSTEMPO program, the Navy has not been greatly affected by the recent surge of Operations Other Than War (OOTW). Because the Navy has, at a minimum, two carrier battlegroups and two amphibious ready groups forward deployed at any one time, we have responded quickly with credible and sustainable forces in a wide spectrum of operations, ranging from humanitarian assistance to operations requiring a robust combat capability.

The Navy is the only Service with a "tried and tested" PERSTEMPO Program. The Navy's goals for PERSTEMPO were established in 1985. These goals and program specifics are:

- * a maximum deployment of six-months (portal to portal)
- * a minimum Turn Around Ratio (TAR) of 2.0:1 between deployments
- * a minimum of 50% time a unit spends in homeport over a five-year period (three past/two projected)

PERSTEMPO exceptions are only submitted owing to unexpected circumstances for deployers which will exceed the first two guidelines above ("deployment" is defined as any unit away from homeport for more than eight consecutive weeks (56 days)). CNO **personally** approves PERSTEMPO exception requests, which are submitted only after fleet CINCs have exhausted all available options. In 1992, following the effects from the Gulf War, the Navy had 46 PERSTEMPO exceptions. In 1993, there were only five. During 1994, primarily as a result of contingency operations in the Caribbean, the Navy had 17 PERSTEMPO exceptions. We have had only one PERSTEMPO exception thus far in 1995.

The third guideline is used by fleet schedulers to ensure national objectives are met under reasonable operating conditions for our naval personnel and their families. Every day out of homeport (steaming, maintenance, etc.) results in a "negative day" in determining that unit's PERSTEMPO statistic.

PERSTEMPO is closely monitored by the Fleet CINCs who submit quarterly PERSTEMPO reports which identify those units "in the red" (negative PERSTEMPO days), and provide projected recovery quarter for each unit. The Navy's PERSTEMPO Program is consistently monitored by the Fleet schedulers and commanders, and corrective measures are initiated in order to remain within established parameters.

In 1994, the number of Navy units with a negative PERSTEMPO level decreased to pre-Desert Storm levels. What has increased, however, is the operating tempo (OPTEMPO) for our forward deployed forces. Lately, aircraft carriers have been operating at sea over 70 days per quarter in the Mediterranean and the Persian Gulf. These high operating tempos for deployed forces, if not quickly funded by supplemental legislation, put the Navy in the precarious position of having to tap the other operating and maintenance accounts, often at the expense of non-deployed forces.

OOTW have minimally impacted the Navy PERSTEMPO Program. In FY94, with Operations SUPPORT DEMOCRACY in Haiti as the sole exception, the Navy responded to all contingency operations with deployed forces, already in a fully trained and ready status. Further, personnel and retention are not directly affected by high tempo of operations, nor from the effects of the drawdown. The Navy closely monitors downsizing with respect to retention, and will continue to effect required adjustments in order to maintain the necessary personnel quality force-wide.

With regard to training and in order to support Joint operations in Haiti, USS DWIGHT D. EISENHOWER was required to cancel a combined Fleet exercise designed to concentrate on battle group interoperability and airwing qualifications two months prior to her battle group deployment to USEUCOM. The EISENHOWER battle group subsequently deployed as scheduled, and completed remaining pre-deployment training requirements en route to the Mediterranean.

While PERSTEMPO has returned to pre-Desert Storm levels, the Navy is currently looking for additional measures to improve efficiency and reduce PERSTEMPO through innovative scheduling and more imaginative planning. For example, new training guidelines are now being established by CINCLANTFLT and CINCPACFLT which are intended to reduce both negative Fleet PERSTEMPO and actual OPTEMPO levels without degrading readiness.

CINCPACFLT and CINCLANTFLT have just recently implemented the concept of "tailored tactical training" designed to better prepare our deploying units to execute missions most likely in the theater to which they will be deployed. Tailored tactical training ensures that the Navy is meeting its specific forward presence requirements while adhering to our PERSTEMPO/OPTEMPO guidelines, and ensuring the highest quality of life for our Sailors during their at-home cycle. Other measures are underway, all intended to sustain a combat ready force while concentrating on additional improvements in quality of life for our Sailors.

Most serious readiness trends

Question: From your perspective, what are the most serious readiness trends?

VADM Lopez: Our most serious readiness concerns are:

- 1) Recruiting and Retention: We must continue to recruit and retain high quality personnel.
- 2) Navy Top Line- Further reduction to Navy's top line would impact readiness. In order to preserve a given level of readiness, the budget must strike a balance between recapitalization/modernization and force structure. Readiness is not only the ability to deliver today, but also in the future. If Navy's top line is reduced, we will be called upon to make difficult choices between current readiness, force structure, and modernization/recapitalization; however, we must not become captive to the notion that today's readiness alone will guarantee us the capability our National Strategy requires. The cost of failing to balance proper readiness with force structure and recapitalization, may result in a force that is ready but one that is also smaller, aging, and ultimately less capable.
- 3) Base Realignment and Closure (BRAC)- If we are unable to close military bases in accordance with our schedules, there may be impacts on readiness which results from continued operation of unneeded bases.
- 4) PERSTEMPO- Inability to maintain PERSTEMPO due to Unified CINC requirements.
- 5) OPTEMPO- Increased deployed OPTEMPO places increasing burden on equipment and personnel.
- 6) Training Funds- We must be able to send personnel to training courses and operate units sufficiently to gain on-the-job training and Exercise experience. Particularly important is the need to maintain sufficient ship steaming hours and aircraft flight hours.

- 7) Maintenance Spares- We must maintain proper service equipment, technical documentation, and available spare parts.
- 8) Weapon Systems Costs- Unforeseen increases in weapons systems costs reduce our opportunities for new acquisition as a means of increasing future combat capability. DON is taking action to control unanticipated cost growth.
- 9) Logistics Stockpiles- We must provide timely spare parts and consumables to support operations and maintenance.

Each of these contributes directly to Navy readiness and our ability to meet a broad range of operational taskings. As support for any of these diminishes, readiness is lowered.

Priority of additional readiness resources

Question: In your personal view, if additional resources were to be provided for readiness, where would you place the emphasis?

VADM Lopez: I would reduce our backlog of critical real property maintenance and repair and reduce our programmed depot maintenance backlogs of missiles, ordnance, airframes and aircraft engines.

Senior Leadership Notification of Readiness Difficulties

Question: It is our understanding that there is a significant lag time between the time a unit is reporting readiness difficulties and the time the senior leadership is informed and acts. Is there a need for more expedited notification to senior military leadership to ensure timely remedial action?

VADM Lopez: Our current readiness reporting system provides sufficient and timely readiness data to senior leadership. Our unit commanders are required to update their unit readiness condition via the SORTS system whenever there is a change to their status. Thus, it is not uncommon for Navy units to provide SORTS readiness status updates on very frequent basis to their chain of command.

Our battle group commanders are appraised daily of their units readiness. In fact, CNO is briefed daily which deployed ships are C-3 or C-4 and what the Mission Capable and Fully Mission Capable Rates are for each deployed carrier airwing. The Secretary of the Navy and CNO are provided comprehensive readiness status briefs monthly.

We are actively engaged in reporting our readiness to OSD and the Joint Staff. Monthly, CNO reports the status of current and projected Navy readiness to OSD's Senior Readiness Oversight Council (SROC) and the Joint Staff's Joint Monthly Readiness Review (JMRR).

Senior Readiness Oversight Council (SROC)

Question: A recent DOD readiness initiative was the creation of the Senior Readiness Oversight Council. Please discuss the specific readiness indicators that are presented to the Council by the Service chiefs. What significant contribution has the Council made in dealing with readiness issues? What are some of the tangible items that have emerged from the process?

VADM Lopez: We provide the SROC a combined status of our ships, submarines, and aviation squadrons. Also, the SROC receives a current status and projected status of our personnel, training, equipment, and combat support units such as logistics, mine counter measure and hospital ships, and reserve forces. Additionally, any other readiness issues or concerns are presented as desired by the CNO. Examples of these are reenlistment and retention information.

The SROC has provided a valuable forum for the Department's civilian and military leadership to present and discuss readiness concerns. The most tangible item that has emerged from the process is an increased awareness among senior leadership of what readiness requires and what a precious commodity readiness really is.

Service IG Role in Assessing Readiness

Question: Each Service maintains an IG operation at the cost of hundreds of millions of dollars to review and inspect the armed services on a wide range of issues. Is there an opportunity to make this structure perform a more active oversight role in assessing readiness?

VADM Lopez: Our IG office already actively assesses readiness - particularly Fleet readiness. IG findings are thoroughly reviewed and analyzed in our Planning, Programming and Budgeting Process to determine other effective and efficient ways of maintaining or improving Navy readiness.

Mr. BATEMAN. We thank you very much for coming, and we are sorry for the interruptions.

[Whereupon, at 12:30 p.m., the subcommittee was recessed.]

NAVAL PETROLEUM RESERVES

HOUSE OF REPRESENTATIVES,
COMMITTEE ON NATIONAL SECURITY,
MILITARY READINESS SUBCOMMITTEE,
Washington, DC, Wednesday, March 22, 1995.

The subcommittee met, pursuant to call, at 2:02 p.m., in room 2212, Rayburn House Office Building, Hon. Herbert H. Bateman (chairman of the subcommittee) presiding.

STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, MILITARY READINESS SUBCOMMITTEE

Mr. BATEMAN. The subcommittee will please come to order.

Our hearing today is on the naval petroleum and oil shale reserves, with a focus on the fiscal year 1996 budget request for the operation of the reserves, and to learn about an administration proposal to corporatize and eventually sell the reserves.

Although this committee has oversight and authorization of appropriations responsibility for the NPR, we have not had the need, in the past few years, to hold a hearing. As there are now significant legislative changes proposed for the future of the reserves, I believe a hearing on all the relevant issues is not only needed but required.

There are some people here today who are familiar with the NPR and its origins. For those who are not, let me just briefly set the stage. The NPR consists of three oil fields and three oil shale fields which were set aside by the Government at the turn of the century as an assured source of oil for our naval fleet.

These fields remained, by and large, underdeveloped until the oil crisis of the 1970's. At that time, full production was authorized for parts of the NPR to ease the reliance on imported oil.

The most productive of the six locations is referred to as Elk Hills, located about 35 miles west of Bakersfield, CA, and ranks among the 10 largest domestic oil-producing oilfields in the lower 48 States. Although all portions of the NPR are important, it is the Elk Hills portion that we are most concerned with here today.

Elk Hills has generated \$15.1 billion of the \$15.6 billion the NPR has returned to the U.S. Treasury since 1970, at a cost of \$2.5 billion. As you can see, there is a significant return on investment associated with Elk Hills.

What is not clear is why we still refer to these reserves as the naval petroleum reserves. As far as I can determine, there is no need by the Navy for the oil that is produced by the NPR. Indeed, all of the products, oil and gas, are sold exclusively to commercial entities.

I have asked the Department of Defense to provide me with a statement of the defense needs for the NPR. I have received a response from James R. Klugh, Deputy Under Secretary of Defense for Logistics, that states DOD's position on the NPR, and without objection, I will make it a part of the record.

[The following information was received for the record:]

Insert Pg. 3 line 59ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

17 MAR 1995

Honorable Herbert Bateman
Chairman, Subcommittee on Military Readiness
Committee on National Security
U.S. House of representatives
Washington, DC. 20515

Dear Mr. Chairman:

This responds to your letter of March 14th to Secretary Perry requesting the Department's views on the relevance of the Naval Petroleum Reserve No.1 as it pertains to the Department of Defense.

The Naval Petroleum Reserve (NPR) No. 1 produces Stevens sweet crude oil at a rate of 65,000 barrels per day (BPD), or almost a billion gallons (996,450,000) per year. This production has a budget cost of \$187 million against gross revenues earned of \$460 million with a resultant net annual revenue of \$270 million returned to the Treasury. According to available information, since opening current production in 1976, the NPR has generated a total of \$16 billion in revenue against \$3 billion in costs.

This production is currently sold to refiners that serve primarily the Los Angeles basin market to be blended with sour crude feed stocks. This makes the process of refining product meeting quality standards easier and less expensive. However, the production rate is slowly declining, now holding at a 65,000 BPD rate. Because of the geology of the oil fields, forcing higher production levels to meet an emergency could irreparably damage the amount of oil available for future recovery. Surging the NPR's production would be justified in our view only during a highly unlikely prolonged international conflict in which many traditional oil sources are either disrupted or in jeopardy.

From a readiness standpoint, a military emergency would require expanded DoD procurement of refined products--primarily aviation kerosene--for immediate distribution and use. Requirements would primarily arise overseas, where there is little credible threat to most of the current sources of supply.

Since DoD does not use crude oil, but only refined, mostly light products, this readily-available stock of crude oil would most likely be exchanged with refiners to obtain

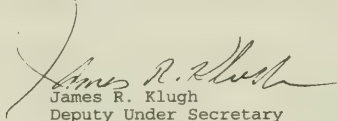


supplemental fuel during large-scale deployment or sustained conflict. DoD's limited experience with crude-for-product exchanges in 1981 indicates that, while possible, such exchanges add undesired complexity, cost, and leadtime to the acquisition process.

The DoD's limited interest in the NPR from a readiness standpoint is more than accommodated by the 6 million barrels of crude oil which DoD purchased by Congressional direction in 1993. This oil has been deposited in the Strategic Petroleum Reserve (SPR) in Louisiana for use in the event the President declares a National Energy Emergency. Given the existence of this reserve, the 1987 objection to the NPR sale is no longer true.

In closing, the DoD's interest in the Naval Petroleum Reserves has diminished over the years as the Reserves have become depleted and otherwise less relevant as a Defense asset. I appreciate this opportunity to provide the Department's views on this matter.

Sincerely,



James R. Klugh
Deputy Under Secretary
(Logistics)

cc: Ranking Minority Member

Mr. BATEMAN. Efforts by the administration over the years to sell the NPR have met with a cold reception in Congress. As you may have heard, Vice President Gore's National Performance Review has recommended the sale of the NPR as a means of saving money. The administration is preparing a legislative proposal that will establish a government corporation to operate the NPR for a period of 2 years, and would then sell the NPR.

These proposals certainly deserve our consideration, but what concerns me is that the proposed fiscal year 1996 budget for the operation of the NPR has been reduced to a caretaker status. What this means is that if Congress chooses not to go along with the administration's proposal, the NPR, and subsequently the U.S. Treasury, will lose between \$135 and \$150 million in net revenues next year, if nothing goes wrong.

I am not happy with the position Congress has been placed in by this proposal. I am hopeful that our witnesses today will be able to explain this proposal in more detail, and convince the subcommittee that the proposal makes sense.

As the future of the NPR is an important issue to many people who work and live near the NPR, we have invited the Honorable William Thomas, Republican of the 21st District of California where Elk Hills is located, to address the subcommittee and then join the subcommittee for the remainder of the hearing.

Also testifying today will be Ms. Patricia Fry Godley, Assistant Secretary of Energy for Fossil Energy; Mr. Rezendes from the General Accounting Office; and Mr. Greg Matiuk from the Chevron Oil Co. The subcommittee is in receipt of a statement from the Bechtel Co. which, without objection, will be included in the hearing record.

[The following information was received for the record:]

**STATEMENT OF
ELMER R. REMKES
PRESIDENT - BECHTEL PETROLEUM OPERATIONS, INC.
TO THE
COMMITTEE ON NATIONAL SECURITY
SUBCOMMITTEE ON MILITARY READINESS
22 MARCH 1995**

It is my pleasure to offer the following comments relating to the current management and operations of the Naval Petroleum Reserve No. 1 (NPR-1) in California.

PERIOD OF ACTIVITIES AT NPR -1

Bechtel Petroleum Operations, Inc. (BPOI) has been the M&O contractor at the NPR-1 since August 1, 1985. Since then, we have participated in the production of more than 300 million barrels of crude oil. Over this period we have received numerous awards from DOE and other government agencies for our operating efficiencies, safety record, support for small and minority businesses, and compliance with environmental protection laws and regulations. We have a staff of highly trained and dedicated employees at NPR-1 with a demonstrated commitment to the stewardship of this valuable national trust.

FY-96 CONGRESSIONAL BUDGET REQUEST

The proposed budget reduction for the Naval Petroleum and Oil Shale Reserve (NPOSr) program is \$86 million, with NPR-1 shouldering \$85.3 million of that amount. DOE anticipates this funding level will provide for a minimal level of operations; eliminate drilling, well workovers and capital projects; place the NPR-1 in a "caretaker" status; and position the field for corporatization and sale or lease in FY-97. This budget reduction seems to be in conflict with the DOE mission statement in the FY-96 budget request for the NPOSr program to "manage, operate, maintain and produce the Reserves to achieve the greatest value and benefits to the Government with consideration of interest of the joint owners."

Production levels resulting from minimal operations in a "caretaker" status will be significantly lower than production levels at the maximum efficient rate (MER) as required in the Naval Petroleum Reserves Act (P.L. 94.258).

BUDGET IMPACT ON THE OPERATIONS OF NPR-1

Maintaining operations at a minimal level and placing NPR-1 in a "caretaker" status will dramatically reduce the revenue the U.S. Treasury receives from NPR-1 operations. The revenue to the Treasury for FY-95 is estimated to be \$409 million. The requested minimal operation budget does not allow for remediation or repair of existing wells in the event of well failures. Production losses from such "shut-in" wells that will occur during the upcoming budget year is estimated at 2.8 million barrels of oil equivalent. In fact, this loss of revenue from "shut-in" wells will, (most likely) exceed \$40 million in FY-96.

Each year about 200 wells require repairs to maintain production levels at MER and to "control" petroleum extraction in a pattern that will allow maximum oil to be recovered from the reserve. Shutting in active wells that require repairs is not cost effective, and contributes to our national dependence on imported oil for domestic consumption. Additionally, the oil produced at NPR-1 is light oil (25°-35° API) and is an important aid to the independent oil producers in the San Joaquin Valley for transporting heavier oils (12°- 20° API) to refinery customers in Southern California. A large reduction in NPR-1 crude oil could impact the transportation of a large portion of "other" oil produced in the area.

Eliminating the drilling programs in the FY-96 budget will impact the field's average production in FY-96 and beyond. The FY-96 production loss is estimated to be 1.8 million barrels of oil equivalent and in FY-97 more than 3.2 million barrels of oil equivalent. This results in a loss of over \$70 million in revenue to the U.S. Treasury (FY-96 through FY-97) for a planned budget savings of \$39 million in drilling costs. These same wells which were to be drilled in FY-96 would also generate another \$64 million in revenues in FY-98 through FY-99.

The loss of revenue from eliminating well workovers, drilling programs and capital projects in the FY-96 budget request will greatly exceed the proposed cost savings from placing NPR-1 in a "caretaker" status.

SAFETY AND ENVIRONMENTAL PROTECTION

The minimal operation budget provides for equipment and facilities to the extent of available funds. The NPR-1 field has a large number of equipment items and pipelines that have been in service over 20 years. These aging

facility items require continuous maintenance attention to extend useful life and, in many instances, timely replacement to avoid accidental failures or damage to the environment.

Placing NPR-1 in a "caretaker" status and continuing to operate the field with a minimal operation budget increases the program risks for a safe operations and strict environmental protection compliance.

BUDGET REDUCTION IMPACT ON ASSET VALUE

A stated purpose of the budget reduction is to place NPR-1 in a "caretaker" status to position the Department for NPR-1 corporatization and sale or lease in FY-97. It is difficult to believe that reducing current operations to a minimal level, coupled with a resulting loss of revenue, will be beneficial to the establishment of a government owned corporation or the eventual sale of the NPR-1 assets. It is an axiom that a property which has been in a "caretaker" status or which has been subject to delayed maintenance will have a reduced market value during sale.

Eliminating the drilling programs under a "caretaker" status budget would not add to the property asset value. Continuing an orderly development drilling program would alone add over \$70 million to U.S. Treasury revenues in FY-96 and FY-97 and increase the "proved reserves" of the field. This additional "proved reserves" will increase the sale value of the field.

GOVERNMENT-OWNED CORPORATION TO MANAGE NPR-1

A Department study by an Independent Industry Panel, dated October 1993, recommended the operations of NPR-1 be focused on maximizing the asset value of the facilities and creating a wholly-owned government corporation designed to capture the principal benefits of a commercial enterprise. The current operation of NPR-1 as a government facility, is subject to Department orders, rules and policies, a number of which are costly to implement and non-value added in the field optimal operation.

Placing NPR-1 in a government-owned corporation should achieve cost savings; however, creating a new business structure for the ownership of NPR-1 assets may require significant revisions to the Unit Plan Contract between the Government and Chevron U.S.A. Inc.

Similar "government-owned corporation" cost savings also can be achieved by the Department removing identified burdensome requirements from the current management and operation contract. This cost savings initiative has been proposed by BPOI on several occasions.

CONCLUDING STATEMENT

I would like to assure the committee Bechtel Petroleum Operations Inc. will continue to provide the Department of Energy with quality services in the management and operations of the NPR-1 to the limits which may be imposed by operating budget constraints. Continuing safe operations and maintaining the current high level of environmental stewardship remain objectives at any budget level.

Thank you for the opportunity to provide these comments as a stakeholder in the management of this important national trust. I will be happy to provide further written comments for this committee as may be required.

Mr. BATEMAN. The Department of Energy is the Federal agency responsible for the NPR. The Chevron Oil Co. owns approximately 22 percent of the Elk Hills oilfields and is part of the operating agreement with the Department of Energy. The Bechtel Co. operates Elk Hills under contract to the Department of Energy.

Without objection, I will place in the record a letter I have received from the California State Lands Commission concerning a potential claim to a portion of the NPR.

[The following information was received for the record:]

SENT VIA FACSIMILE

STATE OF CALIFORNIA

PETE WILSON, Governor

STATE LANDS COMMISSION

GRAY DAVIS, *Lieutenant Governor*
 KATHLEEN CONNELL, *Controller*
 RUSSELL S. GOULD, *Director of Finance*

EXECUTIVE OFFICE
 1807 - 13th Street
 Sacramento, CA 95814-7187

ROBERT C. HIGHT
 Executive Officer
 (916) 322-4105
 FAX (916) 322-3568

March 17, 1995

The Honorable Herbert H. Bateman
 Chairman, Subcommittee on Military Readiness
 House National Security Committee
 2120 Rayburn House Office Building
 Washington, DC 20515

Dear Mr. Chairman:

Your subcommittee will be considering a proposal to create a government corporation that may sell or lease Naval Petroleum and Oil Shale Reserves including Elk Hills Naval Petroleum Reserve Numbered 1. The State of California's retired teachers have a vital interest in what happens at Elk Hills. Whatever the will of Congress may be regarding Elk Hills, as managers of state school lands, we ask that you allow California's retired teachers to receive pension funds from the two school land sections within Elk Hills.

There are 490,000 active and retired teachers who are the beneficiaries of income from school lands in California. The funds are used to provide cost of living adjustments to retired teacher pensions so that their purchasing power is not eroded by inflation. Continuation of the Reserve when no longer justified deprives these former teachers of badly needed funds for this adjustment.

Elk Hills contains two sections of land (1332 acres) which under the provisions of 1927 legislation (44 Stat. 1026) were to have been granted to the state. The state's right to these sections originally arose from the 1853 Act of Congress which granted them to the state to support public schools. Creation of the Reserve prior to the passage of the legislation prevented the state from receiving the land as well as the proceeds from its mineral development. This did not concern the state while the Reserve was operated at a minimum production level. At the current level of production at the Maximum Efficient Rate (MER), the consequences of not receiving these parcels are significant.

The Department of Defense no longer requires Elk Hills since it has access to the Strategic Petroleum Reserves. Its status as a Reserve has for all intents and purposes been terminated. In 1986, the President acknowledged that Elk Hills was no longer a reserve but a

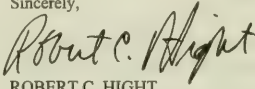
The Honorable Herbert H. Bateman
 March 17, 1995
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public land asset. Subsequently, the Administration proposed the sale of Elk Hills. The proposed FY '96 federal budget again proposes sale or lease of Elk Hills. This budget indicates that "...the federal government no longer needs to own and operate such oil and gas fields."

On February 21 of this year, before the House Appropriations Committee, the Department of Energy testified that the Reserve no longer performed a federal function. It was also indicated that the mission of the Reserve has changed from the 1970's. Given this clear evidence that Elk Hills' status as a Reserve has been terminated, the state should immediately receive the school lands which have been withheld from it.

It is our request that the Congress by statute recognize termination of the Reserve and remove any doubt about state ownership of the two school land sections by confirming title in the state. The state recognizes the ongoing nature of the development of the field. We would cooperate with the federal government or any future owner or operator of the field to continue efficient production of Elk Hills' mineral resources. California's retired teachers have waited for the federal government to fulfill its obligation and complete the school lands grant; you now have the opportunity to end this delay.

Sincerely,


 ROBERT C. HIGHT
 Executive Officer

cc: Hon. Ronald V. Dellums
 Ranking Minority Member
 House National Security Committee

Members, Subcommittee on Military Readiness

Andrew K. Ellis
 Staff Director
 House National Security Committee

Marilyn A. Elrod
 Minority Staff Director
 House National Security Committee

Pete Steffes
 Professional Staff Member
 House Subcommittee on Military Readiness

Mr. BATEMAN. All of the witnesses have a story to tell and a position for the subcommittee to consider. I think we should get right down to it, and after hearing from my colleague, Mr. Sisisky, our ranking member, we will ask Mr. Thomas to proceed with his statement.

Mr. SISISKY. Thank you, Mr. Chairman.

I join with Chairman Bateman in welcoming our witnesses to this hearing today. Judging from the number of witnesses present, and a review of the prepared statements, there are a lot of issues that must be addressed relating to the naval petroleum reserves. I have also become aware of the fact that there are still other perspectives and concerns that must be considered that are not represented.

As such, it is appropriate that we conduct this hearing to explore the options available to this subcommittee. Your testimony and your response to the questions are important to help us understand the issues and arrive at a prudent recommendation.

Again, thank you for coming and a warm welcome to our colleague, Mr. Thomas.

Mr. BATEMAN. Mr. Thomas, we would be pleased to hear from you, and I want to mention that we also have among our witnesses today Mr. Harold Seidman who is a senior fellow of the National Academy of Public Administration.

Welcome, Mr. Thomas, we are pleased that you are here with us and look forward to what you have to say.

Mr. THOMAS. Thank you very much, Mr. Chairman.

I ask unanimous consent that my written statement be made a part of the record.

Mr. BATEMAN. Without objection.

STATEMENT OF HON. WILLIAM THOMAS, A REPRESENTATIVE FROM CALIFORNIA

Mr. THOMAS. I will try to be brief and succinct, and if I am not, I am sure the Chair will keep me focused, because the question of Elk Hills and the way in which the Government has operated it has been a real growing sense of frustration with me.

I was elected to Congress in 1978. Two years prior to that during the oil crisis, President Ford made a decision to produce Elk Hills oil at so-called maximum efficient rate. My first recollection of the oil fields at Elk Hills was a picture of a navy officer with one foot on a large pipe and a giant wheel with the explanation that in case of an emergency, in essence, they could turn the wheel and oil would flow from Elk Hills. It was available. It was a reserve.

The problem with that image is that it does not square with how oil is produced virtually anywhere in its natural state. It does square with the concept of petroleum reserves in the salt domes in Texas. You can turn a wheel. It is a giant straw that does suck oil out of the ground, because it is put in in its liquid state.

This is the ground you get oil from most of the time. This is oil sand. This is the kind of permeated sands that you get oil from.

Elk Hills, as a petroleum reserve, is, as you indicated, Mr. Chairman, the seventh largest oilfield, but it is located immediately adjacent to other oilfields that are part of the top 10 oilfields in the Na-

tion. We have billions and billions of barrels of reserve in the ground.

The problem is that the kind of oil we have more frequently than not is this kind of oil. It is heavy gravity oil. It is good oil, producible oil, but it is not the kind of oil that is produced in the Steven Sand Zone at Elk Hills.

What we have been doing since 1976 is, in essence, squandering a natural resource in this country for purposes of effecting a minuscule impact on the Federal budget.

When we began the maximum efficient production of oil at Elk Hills, as you indicated quite rightly, Mr. Chairman, we threw out the idea of a naval petroleum reserve.

We produced oil to be sold to effect a change in the budget. We have continued to do so without regard to the fact that Elk Hills is an oilfield like any other oilfield. It has a life. And, over the life of that oilfield, if you do not carry out certain procedures you will, in fact, lose oil.

The problem is, this oilfield belongs to the American people. From day one, when the Reagan administration proposed the sale of Elk Hills, I said fine, but make sure the taxpayers get a fair return on this.

And I have said it a million times since then; you can shear a sheep every year; you can only slaughter it once. So if we are going to slaughter it, let's make sure we get our money's worth.

The amount that they wanted to sell Elk Hills for at the time has been exceeded from the production of Elk Hills during the time from then to now. We are back to square one, except that we have not managed that field in a prudent way.

This heavy oil is produced. Elk Hills is valuable because it dilutes that heavy oil. A byproduct of producing oil are other petroleumites, and especially gas. The gas is very helpful to us in a nonattainment area in terms of air quality for running a boiler which is producing steam which allows that heavy oil in a tertiary recovery procedure to come out of the ground.

There have been times when management decisions at Elk Hills have confounded even the folk who are running Elk Hills. If we are wasting the gas, why not set up a cogeneration plant?

It had a return on investment of 35 percent. The total cost of that cogeneration plant would have been returned 100-percent-plus to the Government in a 3-year period. It took 5 years to get an agreement through the Government to build a cogeneration plant when, if the decision had been made in a proper timeframe, it would have paid for itself 40 percent beyond 100 percent in the time it took them to make the decision.

Elk Hills posts the value of its oil. It may be related to the price of the oil in the area, maybe not. When they will not sell it for the price that is posted, they physically move the oil; 20,000 barrels of available oil in terms of pipeline capacity. They physically moved oil from Elk Hills to Texas instead of selling it for what the market would pay for it.

Now, why was there a depressed market in California for oil? Because the Government also said that the Alaska North Slope oil had to come to the lower 48. It couldn't find its own economic home.

We have 800,000 barrels of oil coming to California by Government edict, which depresses the price of oil in California where Government is the producer of oil and doesn't like the price that people say they are willing to pay because there is an oil glut. So, they physically ship it someplace else.

I can give you a number of other examples that have continuously frustrated those of us who look at this one oil field owned by the Government and how it is run versus other oilfields. And, I can tell you that Chevron, with a fifth of a holding, is pulling its hair out about the kinds of decisions that should be made in a timely fashion that aren't, that is wasting their portion of the resources.

Now, no one is at fault. The people who, under contract, try to run the field are not at fault. The people at the Department of Energy who are trying to run this under the Government program are not at fault. The people at OMB who are making decisions, and the bureaucrats who make the decisions are not at fault. The problem is the Federal Government shouldn't be in the oil business.

What we ought to do is sell this asset, if we are going to produce it. It is just like a house you are going to put on the market. If the roof leaks and it needs painting, you don't advertise it "as is" because you will not get your value out of it.

It is not prudent, in my opinion, to simply run a maintenance budget right now. We have milked this field for too long. It needs some husbanding. It needs some proper management. We need to invest a minimum amount of money to spruce it up so that it will be a more valuable asset.

Then Government needs to make decisions in the proper order. The Senate Resources Committee voted out on a 14-to-4 vote, Senator Murkowski's legislation which will allow the Alaska North Slope oil to find its economic home.

I have a bill that is cosponsored by more than six dozen Members of Congress. I started in front of this committee with just me, and we are finally moving that legislation.

If we do not do it in a proper order, for example, if we decide to sell Elk Hills and we don't change the Alaska North Slope economic home provision for its oil, we will provide a windfall to a private purchaser who will sit there, and if we do then redirect Alaska North Slope oil, the oil in the ground has a higher value and they will get a windfall.

We ought to get the windfall and a higher price for that resource. So, we do that first. We move the legislation to allow the Alaska North Slope oil to find its natural home.

We spruce the place up, settle with California, get that out of the way because, in essence, that is a lien against our house. We are going to have to discount the price, and California probably has a legal case in court against it, and somebody is not going to buy the land if they are going to have a question mark over that value.

In the Bush Administration, we sat down and worked it out. I believe there is a workable agreement that can be achieved that will satisfy California at a relatively minimum cost. Then you have a product that has been spruced up that has the maximum value in it and then we go out and spend a couple of bucks for some professional consultants to tell us how to best market this product.

Maybe it is long-term lease, maybe it is sale, or maybe it is some innovative way to deal with this. Maybe it is try to see if we can work out a deal to see if we can make an arm's length deal that gives us the maximum value for this resource.

If we miss this go-around, and we are back here talking about it 4 years later, we will have continued to do what I think is literally obscene, to squander a valuable natural resource with no lasting value to the people of this country. A minuscule bump in the budget deficit is not worth the oil that we have used and the way in which we have used it.

We finally have got to get smart about this resource. It still has enormous potential, but the window is closing fast. And I would urge you to make the right decisions and make them as soon as possible.

Testimony of the
HON. BILL THOMAS
Subcommittee on Readiness
March 22, 1995

Mr. Chairman, I appreciate being invited to comment on the Administration's proposed disposition of the Naval Petroleum Reserves. I hope we can work together to produce legislation that will, at long last, ensure the taxpayer gets the maximum value for these public assets.

Two of the Reserves, Elk Hills and Buena Vista, are located in my district. I will focus on Elk Hills because Buena Vista is a minor producer, yielding a bit over \$2 million in royalties to the government each year. Elk Hills is by far the most important and impressive asset in the Naval Petroleum Reserve system.

Elk Hills is the seventh largest producing oil field in the lower 48 states and a major source of natural gas. Seventy-eight percent of the Reserve is owned by the taxpayers. The other 22% belongs to Chevron. The 51,000 barrels of oil the government gets from Elk Hills each day produces more than a revenue stream for the Treasury. The government share of light Elk Hills crude is important to oil production because it helps expand private sector oil production.

Elk Hills light oil has helped Kern County, California become the nation's top oil producing county. Kern County produces more oil than the state of Oklahoma. About 70% of the county's crude is heavy oil, defined as 20 degrees gravity or less. Heavy oil is a thick, viscous substance generally recovered by injecting steam into reservoirs to make the oil flow. Elk Hills light crude makes heavy oil more valuable by serving as a diluent refiners can use to make heavy oil easier to process. Elk Hills light crude and other products are also used as diluents to make heavy crude transportable through unheated pipelines. Elk Hills gas also plays an important role: that gas fires the boilers for steam generation, allowing producers to comply with the Clean Air Act. What happens at Elk Hills affects both my constituents and the U.S. economy.

The best way to consider the issue before us is to recognize that we have been in the oil business since 1976 when full production began at Elk Hills. The Naval Petroleum Reserves stopped being a military asset long ago. They are operating oil fields. The question about the future of the reserves which Congress has to answer is what makes the most sense for the taxpayer, not what makes interest groups happy or satisfies some philosophical interest in determining the scope of government.

We also need to act with prudence because the Elk Hills reserve in particular is of enormous value. Over the last nine years, Elk Hills has yielded about \$3.6 billion in revenue to the Treasury. I emphasize that figure because \$3.6 billion is the value placed on the reserves when the first proposal to sell them appeared in the Reagan Administration's 1987 budget proposal. With the Clinton Administration suggesting we could sell the Reserves for \$2.6 billion in 1997, we should tread lightly.

As I have said before, we need to remember you can shear a sheep every year. You can only slaughter it once.

I hope the Subcommittee will also consider endorsing H.R. 70, my bill to permit exports of Alaska North Slope crude oil, because such exports would further improve the value of Elk Hills crude. Even a nominal increase in California oil prices of 50 cents per barrel would produce an additional \$9 million in government revenue from Elk Hills next year. The Senate Energy Committee has already reported a bill to allow exports and I hope you will join me in urging our colleagues on the Resources Committee to do the same.

Sadly, Elk Hills is also an example of what happens when bureaucracy and politics get in the way of economics. Elk Hills is managed under DOE regulations, some of which were intended for the development of atomic energy, not oil. Personnel decisions are controlled by government-wide ceilings and an approval process that prevents timely additions of people who may be needed. Capital expenditures come through the appropriations process instead of a business plan, preventing management from easily developing projects with attractive rates of return. In the private sector, I doubt a company's top purchaser would be cut off after buying 20% of a company's output: Elk Hills has to, by law. By act of Congress, the government cannot consider selling or leasing Elk Hills even if it might yield more money to the taxpayer. Even the standard by which Elk Hills production is managed, the so-called "Maximum Efficient Rate" (MER), has no business equivalent. Under MER, the Department of Energy has to maximize total oil recovery rather than focusing on the most economically efficient way of producing. Simply put, a private business would not be run this way.

Two illustrations suffice to demonstrate the absurdity of today's operation. The first is truly embarrassing. When DOE personnel recommended building a cogeneration plant that promised a rate of return exceeding 35%, a plant that had a pay-back period of slightly over 3 years, they had to wait five years to get approval from OMB and the rest of the bureaucracy. This delay cost the government about \$40 million in lost revenue. The other illustrates the irresponsibility of budgeting for Elk Hills based on the deficit instead of oil business practicalities. If Elk Hills management wants to bring on experts in oil marketing to get more value for their output, they have to do so subject to government-wide personnel ceilings. They could even have to get the services through the contractor operating the reserve--on a cost-plus basis. A private sector operator would not tolerate these inefficiencies.

Congress should step up to its responsibilities to taxpayers and give Elk Hills the management it deserves. Three things are essential.

First, we should reject the Administration "caretaker" budget of \$101 million proposed for 1996. The proposal makes no allowance for capital improvements and could reduce future revenues. An asset which is improperly maintained will get a lower price if we do decide to sell the reserves. While the Administration proposes to allow capital improvements if its "corporatization" proposal is adopted, none of us can predict the speed with which such a proposal might be enacted. The taxpayers deserve to have their asset run like the oil business it is.

Second, we should develop and pass a reform bill so Elk Hills can be managed more like a business. Whether or not the Administration proposal to "corporatize" the reserves by creating a government-owned corporation and then subsequently try to sell the reserves is a good idea remains to be seen. Details have been very hard to obtain, making it hard for anyone to evaluate the idea.

Congress should act to improve operations regardless of the final form of the Administration proposal. We can and should end application of outdated regulations and allow budget decisions to be driven by value to the taxpayer, not government-wide deficit reduction. It makes sense to remove Elk Hills from the burden of outdated DOE regulation and to allow capital investments based on returns to the taxpayer. We should not stop there. This is also an opportunity to free Elk Hills of the statutory burdens on its operation imposed through outdated rules such as the MER standard and the 20% limit on sales to a single buyer.

Finally, the ban on DOE's expenditure of funds to study a sale or lease of the Reserves should be terminated. If we are to ensure that the taxpayer gets the maximum value from this public

asset, we need to have information on the alternatives available to us. Refusing funds to consider sale or lease of Elk Hills inherently prevents Elk Hills from being operated as an oil field where economics, not politics, determines whether you hold or sell an asset.

In consideration of a sale or even a restructuring of reserve operations, Congress should ensure that California is finally compensated for its claims to Elk Hills lands. When Elk Hills was created by executive order, the State never received compensation for its interest in the property. California can still assert those claims because the government is no longer using Elk Hills as a defense asset. Unless California receives compensation for those claims, potential buyers will be reluctant to purchase Elk Hills because no one will want to risk having to make payments to California and to the federal government.

We have an opportunity to work together for the good of the taxpayer. Let's take it.

Mr. BATEMAN. Thank you very much, Mr. Thomas. That was certainly a very compelling statement. The committee is indebted to you for coming and sharing your knowledge and background on this problem, which is a very serious one.

We have a vote on the rule. I would suggest that the members go immediately to take care of the vote and return here just as quickly as possible. And, if you have questions that you feel you need to ask Mr. Thomas on the record during the hearing, we will dispose of them, and then we will go to our next witness.

We will recess for 10 minutes.

[Recess.]

Mr. BATEMAN. The subcommittee will please come to order.

We have asked our colleague from California, Mr. Thomas, to join us at the committee table.

I think there was some protest that he does not like to be on the left.

But, welcome Bill, and thank you for your informative testimony.

If no Member of the committee objects, I want to ask that we withhold the questioning of Mr. Thomas, at this point, in order that we can proceed with our other witnesses, because the committee does have a 4:30 time constraint on hearing everyone.

With that in mind, we will defer questioning of Mr. Thomas at this point.

It is now my pleasure to welcome to the committee Secretary Patricia Fry Godley, the Assistant Secretary for Fossil Energy in the Department of Energy.

We are pleased to have you and to receive your testimony. Please proceed.

STATEMENT OF PATRICIA FRY GODLEY, ASSISTANT SECRETARY OF ENERGY FOR FOSSIL ENERGY, DEPARTMENT OF ENERGY, ACCOMPANIED BY ROBERT NORDHAUS, GENERAL COUNSEL, DEPARTMENT OF ENERGY

Ms. GODLEY. Thank you, Mr. Chairman.

I appreciate very much the opportunity to discuss the Administration's proposal to privatize the Naval Petroleum and Oil Shale Reserve.

I would like to introduce Mr. Robert Nordhaus. He is playing a key role.

I have also submitted a prepared statement for the record.

Mr. BATEMAN. Without objection, we will make it a part of the record.

Ms. GODLEY. I will make some brief opening remarks this afternoon.

I will tell you that I have excised a fair amount of my opening remarks because I agree wholeheartedly with the remarks of Congressman Thomas. We also agree with the Congressman that we cannot, as a Government agency, manage the reserves to their maximum value.

The Federal Government, by design, is not in the business of making money. Government agencies, by and large, are in the business of providing critical public services where the cost is distributed across the economy and paid through taxes.

Government programs are driven by and managed to protect the public interest. They are not driven by profit, nor are they equipped, in our opinion, to run a purely commercial operation to achieve that operation's maximum commercial value.

After 7 months in office, I am convinced that the very nature and purpose of a Government agency, which must be responsive to a broad constituency, makes it impossible for us, as an agency, to manage the reserves in a way that would achieve their maximum value to the U.S. taxpayer. That is why the administration proposes to privatize the reserves as soon as possible by fiscal year 1997.

As you know, though, we first want to put the reserves in a for profit, wholly owned corporation. Why bother to do that if we propose to sell the reserves in fiscal year 1997?

I can give you two principle reasons for that. First, it will take us 18 months or so to finalize a marketing plan, get the reserves on the market, and if the price is right, to close the deal. I want to be able to manage the reserves during that time in the least bureaucratic, most profitable way.

Also, the corporation can expedite the sales process. We are currently forbidden by law from hiring investment bankers or other experts who can help us devise the most profitable marketing plan. Even with the authority to engage those sorts of experts, we would still have to overcome the competition in contracting out and other procurement and bureaucratic requirements, to hire the market experts and execute that marketing plan. We would be manacled in the course of implementing a marketing plan just as we are in running this asset.

The second reason for establishing a corporation first is: We are not proposing a fire sale. We will determine the present net value of the reserves that the Government could achieve if we continued to operate them. If we do not get an offer to buy the reserves at least at that price, we will not sell.

Also, I am a pragmatist. Eight prior attempts have been made to sell or lease the reserves. Each attempt has failed miserably before this body. In fact, the last time we tried it, Congress told us we could not even study it again. Even in this new Congress there is a chance that our proposal to sell will be rejected.

In either case, whether we do not get the price, the minimum value of this property, or if we do not get the authority to sell these reserves in a timely manner, we want to be able to operate them or put these reserves in a management structure that will let us operate them to their maximum value while they are being held by the Government or under Government ownership.

We believe, therefore, that the administration's two-step approach to privatization is a sound management plan that safeguards the interest of the taxpayer while conveying a purely commercial activity into the private sector where it belongs.

Mr. Chairman, on behalf of the Department and the administration, we again appreciate your willingness to hear us on the issue.

With that, Mr. Nordhaus and I will be glad to answer any of your questions.

Statement of

Patricia Fry Godley

Assistant Secretary for Fossil Energy

U.S. Department of Energy

Before the

Committee on National Security

Subcommittee on Military Readiness

U.S. House of Representatives

March 22, 1995

I appreciate the opportunity to discuss the Administration's proposal to privatize the Naval Petroleum and Oil Shale Reserves. The Reserves are a valuable asset, but they are an asset that no longer serves a Federal purpose. Since 1976, the program has been devoted solely to the large scale production and sale of oil and natural gas. In other words, the Government is a competitor in operations best left to the private sector. Properly structured, with appropriate safeguards to ensure that the taxpayer receives the full value of the Reserves, privatization can provide significant income to reduce the deficit.

Our privatization proposal is significantly different from those offered by prior Administrations. First, it recognizes that we are losing money managing the Reserves as a Government agency. Although we continue to operate the Reserves at a profit, we believe the Reserves could be produced at a lower operating cost and at greater profitability as a Government-owned corporation. Accordingly, under our proposal, the Reserves would first be established as a Government corporation.

Second, if privatization offers for the Reserves are less than the net present value of the revenue stream under government ownership, taking into account all relevant economic factors, the Administration would not proceed with privatization.

Background

The Reserves were established in the early 1900s to ensure a secure source of crude oil for the Navy as it converted its coal-powered fleet to oil. For decades the Reserves remained generally undeveloped, with the exception of a brief period of production during World War II, and were maintained in readiness for national defense contingencies.

The oil embargo of 1973 precipitated the decision by Congress to produce the Reserves at their "maximum efficient rate" to help offset the Nation's reliance on imported petroleum. The Naval Petroleum Reserves Production Act of 1976 mandated that the Reserves be produced and their production sold competitively on the open market, with all receipts from those sales to be provided to the U.S. Treasury.

In 1977, Congress transferred management of the Reserves from the Department of the Navy to the Department of Energy.

The Department of Energy operates the Naval Petroleum Reserve No. 1 in California and No. 3 in Wyoming and the Naval Oil Shale Reserve No. 3 in Colorado, through its contractors. All productive acreage owned by the Government in Naval Petroleum Reserve No. 2 in California is produced under lease to private companies. Naval Oil Shale Reserves No. 1 in Colorado and No. 2 in Utah are undeveloped. The locations of the Reserves are shown below:



The Reserves have sold crude oil to the private sector, the Department of Defense, and the Strategic Petroleum Reserve. Currently, all oil is being sold to the private sector. All natural gas and natural gas liquids not required for field operations also are sold to the private sector.

Since 1976, the Reserves have produced in excess of one billion barrels of oil, two trillion cubic feet of natural gas, and 3.2 billion gallons of natural gas liquids. On the fiscal side, the Reserves have generated over \$16 billion for the Treasury, against costs of approximately \$3 billion, over a 500 percent return on investment to the U.S. taxpayer.

Need for Management Change

As successful as the Reserves have been in generating revenue, the Department of Energy, as a Government agency, can no longer operate them to achieve their maximum value. Net revenues

declined over 46 percent between 1989 and 1993, as a result of declining production, low oil prices, and increasing production and operating costs. In fact, oil production has declined more than 47 percent over the last six years, and significant capital investment is needed to maintain production at rates that will maximize ultimate recovery and overall profitability of the fields.

The professional staff of the Naval Petroleum and Oil Shale Reserves has made significant progress in streamlining operations and increasing profitability. But a Government agency is inherently limited in its capability to achieve the efficiencies of a commercial business:

- o A private sector company can use its annual revenues to make timely capital investment and operating decisions. In contrast, revenues from operation of the Reserves are deposited into the Treasury, and we rely for funding on the Federal budget and appropriations process. Accordingly, in this period of fiscal constraint, the program must compete for funding with other programs throughout the Government.
- o A private sector company can make timely investment and operating decisions. In contrast, the federal budget cycle allows us little fiscal flexibility. The three-year Federal appropriations cycle dictates that spending choices be made in the planning process now, even though they will not be proposed by the Administration until the next year and cannot be fully implemented, if funded, until the year after that. No business could prosper -- particularly in the dynamic, competitive oil market -- with such an inflexible budgeting and planning process.
- o A private sector company can also make long-term plans for the development of properties. Because of the unpredictability of the year-to-year budget, a sound capital investment program that extends beyond one year may not be funded at needed levels in successive years. This inability to plan puts us at a significant commercial disadvantage compared to a private sector company.
- o As a Federal agency, we are subject to statutory procurement and other bureaucratic requirements that are not applicable to a private sector company. While these requirements might appropriately apply to some governmental functions, they do not allow cost-effective operation of a purely commercial, non-Federal activity like running oil fields.

In short, we have an oil and gas operation, which includes the Nation's 10th largest oil field, but we cannot run it like a business. And the U.S. taxpayers - our "stockholders" - do not receive the full economic benefit that investors would receive in a comparable, privately-run company.

Legislation

The Department is proposing legislation that would maximize the asset value of the Naval Petroleum Reserves by first establishing the United States Petroleum Reserves Corporation, and then privatizing the Naval Petroleum Reserves Nos. 1, 2, and 3, and the Naval Oil Shale Reserves Nos. 1 and 3. Under our proposal, Naval Oil Shale Reserves No. 2 would be transferred to the Department of the Interior for management.

o Corporation. Both the Executive Branch and the Congress have become increasingly concerned about the status and management of the Reserves. Several independent studies of the Reserves have been commissioned over the last several years. The four most recent studies have concluded that establishing a for-profit Government corporation would allow the value of the Reserves to be maximized while under Government ownership.

When Congress enacted the Government Corporation Control Act in 1945, it recognized the need to provide the structure for a government entity which, unlike traditional government agencies, is predominately of a business nature, is revenue producing and self sustaining, involves a large number of commercial transactions with the public, and requires greater fiscal flexibility than permitted by annual appropriations. The Naval Petroleum and Oil Shale Reserves fit this profile perfectly.

Accordingly, in the first step of our proposal, Congress would authorize a newly-formed, for-profit, wholly-owned Government corporation. Corporate status would clearly differentiate the Reserves from other, non-commercial Government activities. Governmental and departmental orders and regulations that frequently detract from optimal operation would not apply to the Corporation.

Corporatization also would streamline relationships with customers. The private sector prefers to do business with an organization that can make decisions expeditiously, without always being required to refer business decisions to a lengthy bureaucratic process.

o Privatization. Operation of the Naval Petroleum and Oil Shale Reserves is not a Federal function. It is not the purpose of the Federal Government to compete against private sector companies in the marketplace.

Moreover, in light of the development of the Strategic Petroleum Reserve, the depleting Naval Petroleum and Oil Shale Reserves no longer serve an overriding public purpose. The Strategic Petroleum Reserve is a public sector program which has no private counterparts. It provides more than 70 days of insurance against disruption of oil imports, and it can be "drawn down" at a rate of 3 million barrels per day, more than 44 times the Government's share of production from the Naval Petroleum Reserves. Government ownership of the Naval Petroleum Reserves also is not necessary to meet defense requirements. Under normal conditions, our military can buy fuel more cost effectively in the competitive market than through the Reserves. The use of authorizations in the

Defense Production Act by the Department of Defense is available when needed to ensure supplies for military mobilization.

Finally, we believe that the Reserves would be more valuable to the U.S. taxpayer if they are owned and operated by the private sector rather than by the Federal Government.

For these reasons, the second step of our proposal is to privatize the Reserves. Under our proposal, the corporation would develop a marketing plan that would divest the Government of the Reserves in Fiscal Year 1997. The plan would include a determination of the minimum value that must be achieved in the disposition of the Reserves. If offers for the purchase of the properties did not realize the minimum value established in the plan, the properties would not be sold and would continue to be managed by the corporation.

We have estimated a "ballpark" market value for the reserves of \$2.6 billion. While this estimate is within a range of reasonable values of the assets, the full value of the Reserves will depend on several variables and assumptions, including:

- o An estimated production schedule for oil, natural gas and natural gas liquids over the life of the fields.

Differences in estimates of production rates and remaining economically recoverable reserves will have a significant impact on the perception of the value of the Reserves by both the Government and prospective buyers.

- o A forecast pricing schedule for each of these products.

In constructing a cash flow analysis, the Government and prospective buyers will use pricing forecasts for oil, natural gas and natural gas liquids for each year of projected production.

- o A schedule of operation and capital costs necessary to achieve the production schedule.

General and administrative costs of a private sector company will be substantially lower than those of the Government. A private sector company could eliminate managing and operating contractor fees, the overlapping program direction and oversight costs incurred both in Washington and in the field under our current operations, and other non-value-added Government burdens. Depending on economies of scale and existing operations, a potential buyer's operating costs may also be significantly lower. However, a private company would be required to pay Federal, State and local taxes that we do not pay.

- o The discount rate used to calculate the net present value of the properties.

The discount rate is a factor used to reflect risk and the rate of return required by a bidder to invest in a particular project. It is a key determinant of the net present value of the discounted

future cash flow, which in turn determines the price a potential buyer is willing to pay. Discount rates are subjectively determined by purchasers based on their perceptions of the risks and rewards of the project to their individual companies.

The \$2.6 billion that we have estimated as a sales value for the Reserves, while reasonable, does not necessarily represent the highest or the lowest value that would be assigned to the properties by prospective purchasers. Our proposal would allow the current value of the Reserves to be determined by market and financial experts for purposes of establishing the minimum value at which the Reserves should be divested under our proposal. Again, if no prospective purchaser offers that minimum value, the Administration would not proceed with privatization.

o Naval Oil Shale Reserves No. 2. This 90,400-acre property is located entirely within the State of Utah. No natural gas or oil is currently produced on the site, and the oil shale beds are thought to be too thin to be economically recoverable using currently available technologies. The property, however, includes areas of scenic wilderness and Native American cultural values. Approximately 40 percent of the land area is contained within the Uintah-Urday Indian Reservation. The Administration proposes to transfer the property to the Department of the Interior. The Interior Department has established programs and authorities for the stewardship of the wilderness and cultural aspects of the tract. As part of its oversight, the Interior Department would prepare a sound management plan that would allow for the orderly development of the natural resources while protecting the unique values of the area.

The Administration's Fiscal Year 1996 Budget

The Administration's request for \$101 million in new budget authority for Fiscal year 1996 comprises the start-up funds needed by the proposed U.S. Petroleum Reserves Corporation to become established and to begin operating the Reserves. It is likely that additional working capital would be needed in order to substantially increase the profitability of the Reserves. This additional capital could be used to:

- o Conduct remedial "workovers" on existing wells, which could include deepening some of them, reopening some at different depths, or perhaps injecting acids to enlarge pore spaces and passages in the surrounding rock. "Workovers" can restore or increase production from producing wells.
- o Drill additional development wells to create a more desirable pattern of production from proven areas of the fields.
- o Expand connections and transfer points to existing pipelines, allowing more natural gas to be transported from the field, thereby increasing gas sales.

- o Expand the ongoing horizontal drilling program. Horizontal wells, although more expensive on a per well basis, have a much shorter payout period and a much higher return on investment than traditional vertical wells.
- o Implement a patterned waterflood "secondary recovery" operation to increase oil production in a section of the Elk Hills "Main Body B/31S" reservoir.
- o Drill new gas injection wells and installing compressor stations and other equipment to re-inject natural gas into an Elk Hills shale formation to boost reservoir pressure and increase the flow of crude oil.
- o Fully develop the natural gas resources of the Naval Oil Shale Reserves in Colorado. These reserves are situated on the flanks of three large natural gas-producing fields. At the present time, DOE is authorized only to drill sufficient wells to protect the drainage and migration of gas to adjacent commercial fields.

Other investments would have payouts in future years and could take advantage of recent market trends. For example, recent market changes in California have enhanced the value of propane. Responding to these commercial opportunities, many private producers are installing separation devices to extract a greater percentage of propane from their crude oil production streams. If the Government corporation were to build such a facility in Fiscal Year 1996, it would begin to payout in 1997.

If Congress does not approve the establishment of the corporation, our request for \$101 million in Fiscal Year 1996 would require us to maintain the Reserves in a "caretaker" status. In this event, capital investment for exploration and developmental drilling, facilities, and remedial well workovers would not be funded. Instead, the \$101 million request would be used first to meet safety and environmental requirements, operate on-line wells and facilities, and then, if funds are available, to conduct maintenance activities. While these minimal operations would probably allow us to maintain net revenues at approximately current levels in Fiscal Year 1996, operating at only a "caretaker" level would reduce production and decrease revenues in subsequent years.

Conclusion

We believe that our two-step proposal of corporatization and privatization of the Reserves provides a responsible plan for the sound management of a valuable Government asset that will realize the full value of the Reserves to the U.S. taxpayer. It will also give the Government the opportunity to convey a purely commercial, non-Federal activity into the private sector, where it belongs.

Thank you for your consideration.

Mr. BATEMAN. Thank you very much for your testimony.

You, apparently like myself, found considerable merit in what Mr. Thomas had to say. Yet, I am not sure that you are entirely on common ground or that I am entirely on common ground precisely with the position in your written statement.

It would seem to me that the issue is probably not whether or not the reserves should be sold, but how to maximize the return to the taxpayers of the United States when it is sold, and sold as promptly as that can be done.

A part of the administration's request, apparently, does not contemplate doing anything to change the manner in which the oil reserves are being managed or an extraction program that would maximize their value over time.

Does it seem to you that that is a good idea? Or should we not be investing some money in maximizing the potential return?

Ms. GODLEY. We are not sitting and holding our hands as we speak. In my view, in the last several months in particular, we have made some significant strides toward cutting the cost of the reserves and maximizing our ability to the extent that we can within our limited ability, to really effect some of the operations.

We are, in fact, working now to further what we call right-size the organization. The contractor operations in that area in the Elk Hills field in particular, using the help of Chevron, our equity partner, in the field to get those reserves better operated as long as they are operated by the Department of Energy.

With respect, I am sure you are referring to what is called the Caretaker Budget as well for the fiscal year 1996 request. I will tell you that the rationale behind our request for \$101 million in new budget authority was made by the Department with the plan that that \$101 million would be a start-up budget for the corporation. In other words, the budget relies on the establishment of the corporation.

We would combine that with carryovers from the prior year for fiscal year 1995, and under the Department's proposal, we would be able to supplement that amount of money with revenues from the corporation. That proposal relies upon our ability to resolve issues under existing statutes, such as the Government Corporation Control Act, as well as the Budget Control Act.

We still have those issues to resolve, but the fiscal year 1996 budget proposal, which is called a Caretaker Budget—I prefer to consider it as a corporation start-up budget—relies on the establishment of that corporation. If we were able to do the things I just mentioned, we would be able not only to maintain the production of the reserves as they are, but to increase the net profits of the reserves in fiscal year 1996 over their current level.

Mr. BATEMAN. Well, I do not have enough knowledge on the subject to be entitled to an opinion as to what it would cost to create this private corporation. I assume this contemplates the title of the United States would be transferred to the private corporation?

Mr. NORDHAUS. What the administration will propose, I believe, is that a wholly owned government corporation will be set up as soon as possible. All assets now held in the Naval Petroleum Reserve would be transferred to that corporation and it would operate as a business, albeit owned by the Government, until either the

stock in the corporation was sold to the public or the underlying assets were sold in accordance with a plan that the administration would put forward and Congress would have an opportunity to review.

Mr. BATEMAN. Well, the \$101 million, is that to capitalize and pay the costs of creating the Government-owned corporation?

Mr. NORDHAUS. No, those are the minimum operating expenses—the establishment of the corporation. I would not anticipate that, as a government corporation, it would entail any significant expense.

Mr. BATEMAN. I am glad to hear you clarify that, because I was reading the \$101 million budget as being used as purchasing—of creating the Government-owned corporation.

Ms. GODLEY. No, Mr. Chairman, that amount of money is part of the entire operating budget that would be required to operate and develop the reserves in fiscal year 1996.

Mr. BATEMAN. Well, I take it, there is somebody's opinion that that is not a sufficient sum to change and improve the operating conditions in the oil reserve in order to maximize the profitability or value?

Ms. GODLEY. We would agree with that. That is why that is not all of what we anticipated would be available to operate the reserves during fiscal year 1996. We would also have the carryover funds from 1995, as well as, under the proposal as we framed it by the Department, we would be able to have access to the revenues which we currently do not have access to.

They are currently deposited in the Treasury and we have to go through the budget process that Congressman Thomas described so eloquently, and that was part of the problem. We still have some issues to work out with the Budget Control Act.

Mr. BATEMAN. Well, there are some who refer to the Office of Management and Budget as the graveyard of good ideas. Have you experienced some difficulties there that would have strained your policy or your recommendation?

Ms. GODLEY. We have a very collegial relationship with the Office of Management and Budget.

Mr. BATEMAN. You just said something that will continue it that way, though I may be in deep trouble.

Do any Members of the committee have any questions of Ms. Godley?

Mr. SISISKY. I do. No. 1, I understand that carryover money has been rescinded by the Senate. Am I correct in that?

Ms. GODLEY. No, my understanding is that the House has considered rescinding money from the Naval Petroleum Reserves which would be part of carryover funds.

Mr. SISISKY. You know, Naval Petroleum Reserve No. 1, that is what we are talking about; am I correct? I noticed the revenues less the expenses, which have gone up considerably—the expenses—looks like we netted \$173 million in 1994. I may be reading this wrong, and \$228 million in 1993. A good part of the difference was in the overhead.

Why is the overhead rising so much? Maybe I don't know a lot about the oil business.

Ms. GODLEY. 1994 to 1993?

Mr. SISISKY. I asked the question for a reason, which is a follow-up question.

Ms. GODLEY. There are two reasons; one that is specific to 1994 and one that is more general. In fiscal year 1994, we incurred the capital cost to build the cogeneration plant that Congressman Thomas referred to, which has enabled us to save over \$1 million a month in cost since that cogeneration plant was constructed.

I might mention that that plant was constructed 6 months under schedule and at least \$1 million under cost—under the budgeted amount. So, there was significant additional capital costs in 1994 that were one-time kinds of costs.

In addition, these are declining reserves, as it takes more money, more investment, to be able to continue the production rates of these reserves as they decline. Also, oil prices, as you know, are stable and going down, very low oil prices compared to earlier oil prices that we have enjoyed in the earlier days of the operation of the reserves.

There are efficiencies that we need to achieve in operating this field. Our partnership, Chevron, which is a commercial operator and well-known and successful oil company, has pointed out several of these areas, and we are working with them to achieve some of these additional efficiencies that would lower the operating costs.

Mr. SISISKY. As I understand it, to get more oil you pressurize the water in there? Are you doing that?

Ms. GODLEY. There are a number of activities ongoing in the field.

Mr. SISISKY. But are you doing it? See, what worries me, and I have to be very honest, given the relatively poor record of DOE's ability to act on its own and improve the profitability of Elk Hills field, why should Congress trust any Government corporation developed by DOE to do any better?

Ms. GODLEY. That is the purpose of having the Government corporation, in our opinion, Mr. Congressman. The Government corporation would be under our proposal, freed from any statutory requirements currently applicable to a Government agency under the laws pertaining to the reserves that prevent our ability to be as profitable as a private sector company.

In addition to those statutory requirements, we have the innate problems associated with Government agencies in their ability to run a commercial property, which we have alluded to. There are many DOE orders and directives that impede the ability of this operation to perform commercially. Those orders and directives would not be applicable to the operation of a Government corporation.

Mr. SISISKY. Is that the only reason?

From what I hear, it was about \$200 million charged to the DOE's budget? Am I correct on that? The previous year?

Ms. GODLEY. Yes.

Mr. SISISKY. But the income doesn't go through DOE, it goes to the Treasury of the United States; am I correct on that?

Ms. GODLEY. Yes, sir.

Mr. SISISKY. So you wiped that \$200 million out by the caretaker. I am not saying you are wrong. I am just saying what happened. It is not a budgetary thing you are working on here now?

Ms. GODLEY. We have substantially decreased our request for new budget authority.

Mr. SISISKY. The caretaker status really lowers the budget by about \$85 million that will allow minimum maintenance on the wells and facilities; is that correct?

Ms. GODLEY. If we are not able to supplement that amount through carryover funds from fiscal year 1995, or using the revenues that we are currently required to return to the Treasury, then we will have to cut back significantly on our operations.

Mr. SISISKY. What does your partner say about that? That reduces Chevron's—

Ms. GODLEY. Chevron has submitted testimony. You will hear from a witness later today. They are not in favor of the caretaker budget.

Mr. SISISKY. I could understand.

Ms. GODLEY. I think if we could, however, get what we are calling the Corporation Start-up Budget, the concerns expressed by the Caretaker Budget would not be true; they would go away.

Mr. SISISKY. Why is it that we cannot get a price on this? This is not the first oil field that has ever been sold. What is the real reason that we cannot get a price fix on this? Is it that you cannot hire consultants to do that?

Ms. GODLEY. That is one of the reasons why we cannot really get an expert fix on what the market or how the market would value these properties. We do not have investment bankers or other market experts in the Department of Energy.

I think to answer your question, there is not a price that these reserves would be valued at by either a buyer or a seller, but there are many variables that could affect that price which would include projected price of oil into the future, how much a particular operator would cost to operate these properties. How much money they would be investing in the future to affect future production rates, the discount rate that a buyer would apply to determine the current value of those assets may differ according to buyer. So there are a number of factors that would affect the value of those assets, depending on the buyer, and depending on the way you calculate those values.

Mr. SISISKY. I understand. That is true in any business. Oil business is a little different, but I just can not understand why we can not get a value on that.

Ms. GODLEY. One of the factors I left out is probably the most important with respect to answering your question, and that is that there is no way to pinpoint the exact reserves remaining under these properties. That really requires art, as well as science, in determining not only what the proven reserves are, there are very established ways of doing that, but reserves that are riskier in nature to find. So every prospective buyer and every petroleum geologist will give you a different opinion as to what is remaining to be produced from those assets. That is where we require the expertise that we do not have currently in the Department, and that is where the real ranges of values can be assigned by any prospective purchaser.

Mr. SISISKY. Well, any prospective purchaser would make that study. They would not make you an offer until they made the stud-

ies, and it would seem to me that that is not a big hurdle. I can not imagine any company even making an offer without knowing what the reserves are.

Ms. GODLEY. They would have to evaluate the reserve studies, that is right.

Mr. SISISKY. Unless you pick somebody to do it that everybody would agree on.

Mr. BATEMAN. Let me ask one question to clarify the relationship between the government and Chevron as a co-owner. Chevron has something like a 22-percent interest; am I correct?

Ms. GODLEY. Yes.

Mr. BATEMAN. Now what is that an interest in? Is it 22 percent of the production; 22 percent of the profit; or is it that they own 22 percent of the land area that is generically described as Elk Hills?

Ms. GODLEY. For purposes of our shared interest, we operate the reserves with Chevron under the unit plan contract. Chevron owns several of the tracts of land——

Mr. BATEMAN. So they own specific tracts of land and then you have a unified agreement.

Ms. GODLEY. Yes, operating agreement.

Mr. BATEMAN. For the withdrawal of the oil under which they receive 22 percent?

Ms. GODLEY. Yes, although, I will say that the equity is not set permanently for all time.

Mr. BATEMAN. All right.

Ms. GODLEY. It would be determined periodically.

Mr. BATEMAN. Mr. Pickett.

Mr. PICKETT. Thank you, Mr. Chairman.

I know very little about oil fields, being from the east, but does the government own the mineral rights or the mineral rights and the land?

Ms. GODLEY. Both.

Mr. PICKETT. It owns both the land and the mineral rights?

Ms. GODLEY. Yes.

Mr. PICKETT. And what do you propose, to sell both?

Ms. GODLEY. Yes.

Mr. PICKETT. Why would you want to sell the land? Is that important to sell the land as part of the transaction or just the mineral rights?

Ms. GODLEY. Our belief is that the highest value that we can obtain from the disposition of these reserves would be through the sale of all of the government's interest in those properties. I will tell you that our proposal would be to exempt Naval Oil Shale Reserve No. 2, which is currently not developed at all. It is located in Utah, and it is an undeveloped area.

We believe it has particular characteristics, the Green River runs through that property. It is a very pristine wilderness area; 40 percent is located on Indian reserve territories. We are proposing not to sell that property but to convey or continue its ownership in the government so that it can be developed for purposes of public interest, but we would convey the rest of the properties in order to maintain their maximum value to the taxpayer.

Mr. PICKETT. Is there any requirement to sell the land and the mineral rights together?

Ms. GODLEY. There is no requirement, no.

Mr. PICKETT. What makes you think that you will get a better price selling them together as opposed to separately?

Ms. GODLEY. I suppose that is something that our market analyst could consider. We are not locked in stone that we would sell the land and the mineral rights to the same person. That would be one of the considerations, I am sure, in formulating a marketing strategy.

Mr. NORDHAUS. From my extensive experience, I think it is easier to develop and produce property if the surface and mineral rights are under common ownership. I also think that the property is likely to be more attractive to a purchaser if the purchaser doesn't have to deal with the government as surface landowner.

Mr. THOMAS. It even goes beyond that in this location. Remember Elk Hills is a fence. The one side is Government property and on the other side is not. One side is owned by private companies who have to build a road in to access the wells they have there and it dead ends because the Government property begins. If you are going to sell the mineral rights and not sell the land, folks are not going to be able to access and maintain wells and do other things.

In addition to that, we were able to build a Federal prison on the west side to help an economically depressed area in part because of Government decisions on oil. And it seemed obvious that we ought to locate that Federal prison on Federal land. It turns out that we could not put it on Federal land.

There are a number of critters there who have been allowed to maintain a habitat, and the only land that was available was land that Chevron had, that they wisely plowed every year and maintained, and we had to work a deal out so that we could use the land. No one is going to buy the mineral rights to Elk Hills if you do not sell the land with it. The headaches and the inability to really access and use it makes no sense whatsoever.

Norm has been there. Why the Government would want to hold the surface at Elk Hills and sell only the mineral rights is probably a decision that only somebody in the Government would come up with.

Mr. NORDHAUS. But not the two of us.

Mr. THOMAS. It is not a good decision.

I have some questions, if I might participate.

Mr. SISISKY. Were you talking about the \$5 million, the Teapot Dome thing? The budget request, was it NPR-3 that you were talking about?

Ms. GODLEY. It is the Naval Oil Shale Reserve No. 2 in Utah.

Mr. SISISKY. In Utah.

Mr. BATEMAN. Mr. Thomas is now recognized.

Mr. THOMAS. Ms. Godley, I cannot completely reconcile what you said at the beginning in terms of agreeing that it should probably be managed and run in the private sector, because even under the so-called maximum efficient rate, it doesn't come any where near maximizing the return on investment that the private sector would follow in running this as a business for profit.

I cannot reconcile your statement that that was what you thought we should do with the idea that we should set up a Government corporation. I have not seen all the models. One model I saw has a president or a chairman nominated by the President and approved by the Senate. That is not the one we would use?

Ms. GODLEY. No, sir.

Mr. THOMAS. Where would we get the people to make decisions in a business-like fashion in the Government corporation that you are creating?

Mr. NORDHAUS. Let me caveat this by saying one of the things we are reviewing in the interagency process, and with our colleagues at OMB, is exactly what is the most effective way of setting up the corporation as a transitional—

Mr. THOMAS. Is this a 3-year review time frame or a 5-year review time frame?

Mr. NORDHAUS. We are hoping it is going to be a couple more days.

Mr. THOMAS. Obviously, it is difficult to evaluate your offer on this if we cannot see the structure to find out whether or not it makes sense, and we have not seen it yet. And so, I am at a bit of a loss to say it looks good or not when I don't know what it is.

Mr. NORDHAUS. We have some of the same concerns. And that is, we would like to be able to present a full legislative package to you, but we do not have that right now. Until we conclude the review process and get everybody in the Administration on board on the details of corporate structure, we are not able to give you a definitive answer.

But I will say that our recommendation has not been to go through a presidential appointment and Senate confirmation, but rather to have a more—

Mr. THOMAS. My problem is, if we agree the current structure doesn't make sense, and we are going to move to an interim Government-run corporation to run it like a business, it will not be a business, it will be run like a business and there is no time frame from the life of this corporation.

We could see this thing going on for another five or seven—you shake your head no, but if you really want to move it to the private sector, why don't we send a signal that we are moving it to the private sector and it really isn't necessary to put it in a holding pattern in a Government corporation?

I will tell you, in 1982, when President Reagan said this thing is worth \$3.6 billion and we ought to sell it, I said it is worth more than that. I thought it was more like \$6 billion. It turns out in the time frame he said it was worth \$3.6 billion, today they raised another \$3.6 billion. We hung onto the asset and it has meant \$6 billion to us.

It is difficult to determine the price of oil in the ground because what it is worth in the ground is related to what it is worth coming out of the ground. And, in one year when you have gone from \$14 a barrel to \$9 a barrel, to talk to the county assessor in Kern County, where he is trying to put a value of oil in the ground, and there have been all kinds of court cases arguing what the value of oil is—wait a year and it is going to change.

If we could get this other Government policy corrected, then the value of that oil in the ground will go up. There is a window of maximum opportunity for selling this property. It isn't after you have moved it into a Government corporation, open-ended as to whether you are going to do it or not, and you then get Government employees in place making decisions instead of Government employees making decisions.

Yes, they have been freed up a little bit. They are not subject to the same structures. But you have got to spend money to make money. You have to have a long-term plan in this field. It is becoming more critical every year.

You have to go after and repair wells that are there now, that are close to being closed, because you haven't maintained them. Once you shut in a well, you are not going to be able to bring it back. You have lost that asset. You have lost that oil in the ground, and you are never going to recover it.

Some of these wells are going to have to be nurtured in a way that we get as much as we potentially can now, less than we would have if we had made the proper decision 5 or 8 years ago. But every year you delay getting it out there, running it by people who know, understand, and can make decisions about oil, because they are oil people—not that the people in the Navy or in uniform are not oil people—but they cannot make the decision in the time frame and the structure that they need to.

I do not understand how we advance our agreed-upon mutual end by creating an interim Government corporation that we don't know the structure of and has an open-ended life.

Ms. GODLEY. It doesn't have an open-ended life, to respond to you.

Mr. THOMAS. How long?

Ms. GODLEY. Two years. Fiscal year 1997 would be the target date for sale, and I will go back to your sheep-shearing analogy. We are not going to propose to sell these reserves on a fire-sale basis.

Mr. THOMAS. What happens if the bottom falls out of the market in 2 years and it is not a good time to sell? We have it on a maintenance basis and we haven't made the necessary repairs. Do we then not sell it and renew the corporation and have a fight in Congress about whether or not we renew the contract on the corporation? Is that what we are going to do?

Ms. GODLEY. One of the other assumptions of your statement and our proposal is not consistent with our proposal.

Mr. THOMAS. Could I see your proposal?

Ms. GODLEY. The piece of it that I have described that is responsive to your question is in my prepared testimony. And that is, we would propose to set up the corporation so that we could begin now to accomplish some of the fixes that you have been talking about. We need to get some relief from the statutory requirements that do not allow us to operate at a most profitable basis: the MER requirement, the 20-percent cap, the small refiner set-aside, and so forth.

If we could begin doing that, in the several months that it would take to get the markets plan done and put it on the market—whether that is done by a Government agency or by the private sector, it cannot be done tomorrow—we can be operating those reserves better than we are operating them today.

And, back to the sheep-shearing comment, I am—again to repeat what I said earlier—a pragmatist. Eight times the administration has tried to do this, and eight times the administration has failed.

At the end of this process, at least if we cannot get either the price—the minimum price that is established upon agreement on this property, so that we are not selling these properties as fire sale—I certainly would want to be able to be in a position to maximize the operation while the reserves are held by the Government. That is the proposal.

Mr. THOMAS. Just let me very briefly, and then I will stop, Mr. Chairman. Obviously, the proposed suggestion is minimally better than what we have now, but I will tell you that I have visited those administrations in the eight times that they have proposed to sell it. Initially, the price was simply too low. After that, there was never an honest commitment to really sell it. It was dangling out there and they never approached it like a sale.

My concern about this interim position is once again sending a message that we would like to sell it, but there are ways in which it will not be sold. I think the fundamental message needs to be sent that Elk Hills is for sale. Then the question is, how can we make sure that we get the maximum dollar value for it? Then you can talk about the potential for a Government corporation structured slightly different than you are suggesting.

Until and unless you make the statement that Elk Hills is for sale at whatever price is appropriate, and then go into a bidding process and do a number of other things—but to say that we are going to set up a Government corporation that may or may not have to be renewed because the price isn't right, because some bureaucrat in OMB says that is a fire sale price, or Congress believes that for whatever reason they cannot make a decision and this current structure is perpetuated for whatever reason—I am very concerned that we are going to enter a holding pattern which will be a holding pattern.

Mr. SISISKY. The question is, What happens if we don't corporatize this year? If Congress doesn't do it—and they may not do it—what really happens then? Where are we? If it is not in your budget to run, what are we going to do?

Ms. GODLEY. As we have responded before in our testimony and as we have responded in front of other committees, we will maintain the fields in the condition that they are in now. We will use the carryover funds from fiscal year 1995, and we will look for money savings and cost savings across the reserves.

No doubt about it, you are exactly right, if we don't get the approval and the authorization upon which that budget is predicated, we will cut down the amount of money we can make from the reserves in fiscal year 1996 significantly.

Mr. BATEMAN. Let me at this point, having already referred to and made a part of the record a letter from the California Land Commission, also make a part of the record a letter recently received from Mr. Dellums, the gentleman from California and the ranking member of the full committee, that deals with the possible legal interest of the State of California to a portion of the land and the resource involved here.

The following information was received for the record:

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COMMITTEE ON NATIONAL SECURITY

U.S. House of Representatives

Washington, DC 20515-6035

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March 21, 1995

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ANDREW K. ELLIS STAFF DIRECTOR

The Honorable Herbert Bateman
2350 Rayburn House Office Building
Washington, DC 20515

Dear Herb:

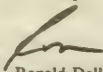
The Readiness Subcommittee of the House National Security Committee will be conducting a hearing on the Naval Petroleum and Oil Shale Reserves including Elk Hills Naval Petroleum Reserve Numbered 1 on 22 March 1995. The primary focus of this hearing is on exploring the process for disposing the Reserve. I bring it to your attention in that it is a matter of concern to me.

The Department of Defense has reiterated that it no longer requires Elk Hills. In February 1995, the Department of Energy testified that the Reserves no longer performed a federal function. The proposed FY 1996 federal budget proposes sale or lease of Elk Hills stating that "the federal government no longer needs to own and operate such oil and gas fields." Congressional action is required to acknowledge the termination of the Reserve status and to determine disposition of the public land asset.

The attached material will more fully explain my desire that the concerns of the State of California retired teachers be addressed in any disposition.

Thank you for your assistance with this matter.

Sincerely,



Ronald Dellums
Ranking Member, National Security
Committee

RVD/dlt
Enc

MAR 22 1995

CALIFORNIA STATE LANDS COMMISSION

FACT SHEET

ELK HILLS NAVAL PETROLEUM RESERVE NO. 1 (Obligations to California Schools)

SUMMARY:

The Administration (Department of Energy) as part of the Fiscal Year 1996 Budget proposes to privatize the Elk Hills Naval Petroleum Reserve No. 1 (NPR-1). The proposal, if amended to compensate California for its State school land interest within NPR-1, offers the opportunity to resolve a long standing dispute between the Administration and the State of California. Both the Federal Treasury and the retired school teachers of California will benefit from the adoption of an amended proposal.

HISTORY:

As part of its statehood entitlement, California was granted two sections of federal land in what would later become the Elk Hills Naval Petroleum Reserve No. 1. These two sections of school lands contain about 7% of the total oil reserves within the field. Those sections are dedicated by State law to the California State Teachers Retirement System. The State's right to them arose from the 1853 Act of Congress, which designated two sections in each surveyed township as a grant to the State to support public schools. This school land grant is similar to those given every public land state since 1804. The Supreme Court has characterized the grant as a "solemn agreement." *Andrus v. Utah*, 446 U.S. 500, 507 (1980). The United States agreed to give these lands to the states. In exchange, the states agreed to disclaim any taxing authority over federal lands, and to use land grants to support public schools. *Andrus* at 522-523.

The State would have perfected its title to the two sections within the Elk Hills oil field, but for presidential orders in 1909 and 1912, withdrawing the entire area as a Naval Petroleum Reserve. Initially, however, Federal efforts to carry out the President's intention to preserve the Elk Hills oil for Navy needs were largely unavailing. The oil reservoirs were being exhausted by production from wells on the privately owned lands within the reserve which tapped the same formations. Also, the Secretary of the Interior decided in the 1920's to lease the remaining Reserve lands to private companies. Most of these leases were subsequently voided because of fraud and corruption -- part of the "Teapot Dome" scandal.

Thereafter, the Reserve was organized as a common unit, combining both public and private wells in a single operation whose production rate was controlled by the Navy at a level considered sufficient to keep the wells in operation, prevent drainage, and to compensate the private owners. Then, in 1976, Congress approved termination of the restricted rate, and authorized production at the maximum efficient rate, with sales on the open market. The Administration's current legislative proposals would finally relinquish federal control and ownership of the fields.

Although recognition of the school land grants would not have affected the Navy's control over public and private production, no Federal action was taken to recognize the State title or to give reasonable compensation. While federal law provides that States may select similar federal lands in place of unsatisfied school land grants, available public lands within the State offered nothing of comparable value. And the Departments of Energy and Interior both rejected California's proposal that the State would accept title to the land in place subject to the same control over production that is applied to the private owners.

The situation became urgent in 1986, when the Administration first proposed the sale of Elk Hills as an element of emergency budget-balancing action without providing for the State's claim. The House Budget Resolution for fiscal 1987 directed the Secretary of Energy to negotiate and settle the State school land claim. During the Senate consideration of the Interior Appropriations bill, then Senator Pete Wilson obtained assurances that the provision would be made in conference committee to deal with California's rights, even if Elk Hills were not sold. However, those assurances were never spelled out in the appropriation as enacted, which gave \$500,000 to the Department of Energy to study the feasibility of sale.

Without prior notice to the State, however, the DOE recommended legislation which would relegate the handling of California's school land title rights to claims litigation in the Court of Claims. The State then filed a quiet title suit against the United States. California asserted that production at the maximum efficient rate amounted to a revocation of the Reserve by implication. Although that lawsuit was dismissed in 1992, apparently on the ground that increased production was insufficient to give California a title claim, a new claim would arise if actual divestiture occurs without recognition of California's interests.

Both equity and good sense, however, have suggested a less confrontational method of settlement. The State's right is an obstacle to the Federal leasing or sale, but, equally clearly, involves a long and expensive process of litigation. Moreover, failure to fulfill the State's claim in Elk Hills, given the national promise to provide a representative portion of the public lands for State schools, sharply questions the Administration's commitment to the principles of federalism.

During the long period when the United States was seeking to establish and maintain a Naval Petroleum Reserve, California did not challenge the continued possession of the land by the United States. But when it has become clear, as the President acknowledged in 1986, that

Elk Hills was no longer a "Reserve" but simply a public land asset whose oil reserves were being produced and sold for Treasury revenue purposes, the withholding of State title had no shadow of justification.

CONCLUSION:

In short, until recently the United States had been treating Elk Hills like other tracts of public land held by the Bureau of Land Management, with two major exceptions. It did not yet recognize that this changed status required the Administration to acknowledge the State's title to the school lands within that tract, as with the school grants on public lands in other States. At the same time, it did not yet acknowledge that mineral revenues from the remainder of these public lands should be shared with the State under the Mineral Leasing Act.

However, as part of the Administration's National Energy Strategy, as contained in the Fiscal Year 1992 Budget, the President for the first time recommended to the Congress that the Naval Petroleum Reserve No. 1 be competitively leased and that the retired teachers of California share in its revenue stream. Under that proposal California would have received seven percent of the bonus payment, and one-half of the lease royalty. The California State Lands Commission, the Office of the California Attorney General, the State Teachers' Retirement System and the California Governor's Office have been working with the Office of Management and Budget to resolve this long standing dispute. The Administration's proposal in the Fiscal Year 1996 Budget for privatizing the Elk Hills Naval Petroleum Reserve No. 1 (if amended to compensate California for its school land interest) offers an opportunity to resolve this longstanding dispute. Both the Federal Treasury and the retired school teachers of California will benefit from the adoption of an amended proposal.

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Let me say on that score that this is something that we are not dealing with extensively on the record today, but it is an issue that needs to be resolved. One of the things, I think is clearly out there, is how do you dispose of this property on terms which are advantageous to the Government if you don't find a vehicle by which any third-party claims to the resource are to be dealt with? And so, that is one of the things the committee will have to look at.

I would be anxious to say further that I don't know that this is the committee in which we can adjudicate those claims, but we have got to find a way to try and see that those claims do get dealt with in a manner which does not depress the ultimate value that we can recoup for the taxpayers.

Mr. THOMAS. Mr. Chairman, just very briefly, because I want to agree with Ms. Godley and I want to add one other statement; that is, if we do nothing, not only will we lose money in terms of revenue, but we will lose oil—potential oil being brought to the surface. We will have continued to squander a resource which has not been used wisely for a long time.

Totally unacceptable, in my opinion, is to do nothing. We can enter into some kind of a negotiation and coordination and restructuring of where we go from here, but fundamental to that is sending the message that Elk Hills is going to be sold; and then we can talk about whatever interim steps need to be taken.

But, Mr. Sisisky, you couldn't run a business if I told you that all of the profits from your business went elsewhere and you had to run it off of whatever allowance I gave you. And that is exactly what these folks have been trying to do.

Mr. SISISKY. I said that right from the beginning.

Mr. THOMAS. It is very, very difficult to sit here and talk about how we take nickels and dimes to solve a problem of a structure that has been producing hundreds of dollars every year.

The current situation is intolerable. We have got to change it and, obviously, this administration has a mind to change it. They don't want to repeat the mistakes of previous administrations. But, having said that, I believe there are still ways that we can create a structure which sends a clear message that Elk Hills is for sale. We are going to make sure that this resource is used properly, and anything we do between that statement and finalization of the sale of Elk Hills has to be seen as preparation for sale and not some holding pattern, or potential redirection, or holding it for some new idea for government to involve itself.

With that, Mr. Chairman, I want to thank you very much for holding this hearing.

Mr. BATEMAN. Thank you, Mr. Thomas.

Let me remind members of the committee that we do have some time constraints that we have to deal with today in getting the hearing completed by 4:30.

Now, if Mr. Pickett has some compelling questions.

Mr. PICKETT. I have no other questions, Mr. Chairman.

Mr. BATEMAN. We will give members of the committee an opportunity to submit questions for the record for the witnesses heard thus far, as well as for the witnesses who we will be hearing from later this afternoon.

Thank you very much for your testimony.

Mr. THOMAS. Mr. Chairman, as a major contribution to speeding this committee along, I will leave now. I appreciate participating in this hearing very much.

Mr. BATEMAN. We would be happy to have you stay, and we will certainly be in communication with you as we put this issue to rest.

Mr. THOMAS. Thank you very much.

[The following questions were submitted for the record:]

RESPONSE FROM THE DEPARTMENT OF ENERGY

TO

QUESTIONS FROM THE SUBCOMMITTEE ON MILITARY READINESS

Question #1

In your proposal for a government corporation for the management of the NPR, how would this work? What would be the structure of the corporation? Who would/should select the Chief Executive Officer or Chairman of the corporation? Should there be a board of directors and if so, who should select them? Will new corporation employees be hired or will existing DOE employees be transferred?

Answer

The primary goal of the Administration is to transfer ownership and operation of the Naval Petroleum and Oil Shale Reserves to the private sector--where all parties involved in their oversight unanimously agree they best belong--at a price that represents a fair value to the U S taxpayer. Only if the President concludes that offers from prospective purchasers do not represent a fair value will the Reserves be corporatized.

The general concept of a government corporation was developed to provide an effective and efficient mechanism for governments to manage and operate programs which, due to their commercial-type nature, fell outside of the boundaries of more-traditional governmental activities. No particular corporate structure or management plan is attached to this general concept. Corporatization of the NPOSr is being proposed to allow this program to function more like a private-sector oil company if it remains within the Federal government. The management of the new corporation, who would likely have extensive private sector experience, would devise an organizational structure and management plan which would, to the maximum extent possible, be based on how the private sector would organize and operate a large oil and gas production company.

We believe it appropriate that the Secretary of Energy select the Administrator (chief operating officer) of the NPOSr corporation. Based on guidance from the National Academy of Public Administration, we do not contemplate the new corporation having a Board of Directors or Advisory Board. It is envisaged that current employees of the NPOSr program will be transferred to the new corporation to allow for an orderly transition from Federal program to government corporation. It is likely, however, that this small existing cadre of professionals (80 Federal employees) will have to be augmented by new hires so that certain areas not presently handled by the NPOSr program staff, such as legal and marketing work, could be properly managed by the new corporation.

Question 2:

In your prepared statement, you say that if privatization offers for the reserves are less than the net present value of the revenue stream under government ownership, taking into account all relevant economic factors, the Administration would not proceed with privatization. How will you determine the net present value of the reserves? As it has been difficult in the past to convince Congress as to a "fair to the government" net present value, how do you plan to change this perception?

Answer:

To determine the net present value of the reserves to use as the basis for any formal sales proposals, we would do detailed, reservoir-by-reservoir, projections of oil, natural gas, and natural gas liquids production for each of the Naval Petroleum and Oil Shale Reserves that are included in our privatization proposal. We would then apply estimated sales prices for each of these product streams to calculate future revenues, which would then be discounted using standard financial analysis techniques to arrive at a net present value. We also believe that it would be beneficial to have Congress lift the current restriction on obtaining outside expertise to assist in analyzing this privatization issue. Evaluation and verification of the Department's estimates of hydrocarbon reserves and fair market value by qualified firms which

perform the same tasks for private oil companies should, in our opinion, alleviate most of Congress' concerns about the validity of our specific recommendations

Question 3: If we were to corporatize the NPR, how would we ensure the adoption of management and financial practices that would result in lower costs and increased revenues for the taxpayer?

Answer: The management of the new corporation, who would likely have extensive private sector experience, would devise an organizational structure and management plan which would, to the maximum extent possible, be based on how the private sector would organize and operate a large oil and gas production company. Under the provisions of the Government Corporation Control Act, to which the new corporation would be subject, a "business-type" budget would have to be submitted to the Congress by the corporation which would have to account for both costs and revenues. Corporation managers will be accountable for costs and revenues just like their private-industry counterparts.

Question 4: Given the relatively poor record of DOE's ability to act on its own and improve the profitability of the Elk Hills field, why should Congress trust that any government corporation developed by DOE will operate any better?

Answer: While we acknowledge that in recent years NPOSR operations have been burdened to some degree by costs associated with DOE's administration which do not necessarily add value to the products or performance of the program, we do not agree with the contention that this agency has a "relatively poor" record of improving the profitability of the Elk Hills oil field. It is a matter of record that, since its open-up in 1976 through Fiscal Year 1994, the Elk Hills field, under DOE management, has generated \$15.5 billion in revenues against costs of \$2.8 billion--a \$12.7 billion in net revenues to the government, an extraordinary return by any measure. However, the Department believes that this performance might have been even better without the administrative burdens imposed upon it

The primary goal of the Administration is to transfer ownership and operation of Elk Hills and the other Naval Petroleum and Oil Shale Reserves to the private sector at a price that represents a fair value to the U.S. taxpayer. Only if offers from prospective purchasers do not represent a fair value will the Reserves be corporatized. Although DOE would necessarily manage the initial formation of the corporation and the transition of the NPOSr from a Federal program to a Government corporation, the actual management and operation of the corporation will be done by its own personnel, completely independently of the Department of Energy. We are asking Congress to eliminate the current statutory requirement to produce the Reserves at the "maximum efficient rate" and instead require the new corporation's management to "maximize the asset value of these properties to the Nation." With this key change in mission, the requirement under the Government Corporation Control Act to submit business-type budgets and other requirements, the corporation's management will be accountable to the Executive branch and Congress for all aspects of the corporation's performance, including profitability.

Question 5: The Administration's budget request for fiscal year 1996 proposes to place the NPR in a "caretaker" status in anticipation of creating a federal corporation in FY 1996 and then sell the NPR in FY 1997. This "caretaker" status lowers the budget for Elk Hills by \$85 million which will allow only minimum operations and maintenance of on-line wells and facilities. What is the expected loss of revenue to the taxpayers by this budget reduction? What is the expected loss to DOE's unit partner, the Chevron company? Will minimal activities in operations and maintenance programs increase the risk of operational accidents or environmental damages?

Answer: Corporatizing the Naval Petroleum and Oil Shale Reserves (NPOSr) prior to privatizing them was a feature of a draft proposal which has undergone significant modification based on interagency review and Congressional comments. In the current proposal, the first order of business will be to initiate an orderly and professional effort to sell the Reserves at a price that represents fair value to the taxpayers. The Reserves would be corporatized only if the President determines that

offers to buy the Reserves fail to meet the minimum sales price established in accordance with criteria set forth in the legislation authorizing the sale.

The Administration will submit a budget amendment to fully fund all aspects of the Naval Petroleum Reserves. This amendment will provide enough funding to operate the fields so that there will be little impact on production and revenues. We will continue to operate the Reserves with safety and environmental compliance as our highest priority.

Question 6: In a "caretaker" status, the elimination of remedial well workovers at Elk Hills could require the shut-in of existing on-line wells resulting in a loss of production and revenue. Could this delay in workover of wells affect, in any way, the economic recovery of oil from Elk Hills?

Answer: The Administration will submit a budget amendment which will request enough funding to operate Elk Hills without the loss of production or revenue.

Question 7: Why does DOE say that the reserves can be sold for about \$2.6 billion when, in fact, internal estimates of the Net Present Value (NPV) of these reserves after corporatization are substantially higher? (DOE estimates \$3.5 billion from permanent corporation as reported in its FY 1996 Congressional Budget Presentation.)

Question 8: DOE has mentioned several potential sales prices when it comes to selling the Elk Hills field, i.e., \$2.6 billion and \$3.5 billion. Which is correct? What explains the difference between these two estimates?

Answer: Any estimate of the sales price of the Naval Petroleum and Oil Shale Reserves is subject to a high degree of uncertainty, dependent as it is upon variables, such as the future price of crude oil, which are extremely difficult to predict. In the preliminary analysis of this issue, DOE felt that \$2.6 billion was reasonably representative of a range of possible market values of the Reserves that went from as low as \$1.6 billion up to a high of \$3.5 billion.

To alleviate concerns about the possibility of selling the Reserves at too low a price, our current legislative proposal specifies that the minimum acceptable price shall be not less than the net present value of the sum of the anticipated revenue stream that the Secretary determines the Treasury would receive from the Reserves if they were not transferred, and the payments due to the State of California as authorized in the legislation. In addition, under this legislation, the President must specifically approve the privatization plan, including the minimum acceptable price. After Presidential approval, the plan is then sent to Congress for a 60-day lie-before period.

Question 9: The Chevron Company has estimated that they could lower the costs of running Elk Hills by \$37 million per year. Does DOE agree with these estimates? If not, why not?

Answer: While DOE shares Chevron's goal for a more efficient operation of the Elk Hills oil field, it is our opinion that Chevron's estimate of \$37 million in potential cost reductions to operate Elk Hills is overstated in the context of present and future budgets for that facility, which are significantly smaller than the 1992 cost estimates upon which the \$37 million reduction figure was based. Chevron's 1993 proposal to operate Elk Hills, which contained the \$37 million cost reduction figure, has served as a valuable benchmark for collaborative efforts currently underway, such as "rightsizing" the Elk Hills contractor work force, which will result in significant cost reductions in the very near term. The cost reductions which have been achieved to date at Elk Hills have not resulted in any decreases in oil production, a salutary outcome which Chevron did not foresee in its proposal. Cost reductions of the magnitude that Chevron has estimated are possible, in our opinion, only under a very specific scenario:

- The operation of Elk Hills is privatized. This can't be achieved without the passage of legislation by Congress.
- A significant amount of future investments in facility infrastructure and exploration for additional reserves is sacrificed in order to keep total costs as low as possible. Responsible petroleum engineering experts can disagree on the wisdom of this operating philosophy.

Question 10: Last year, Chevron presented an unsolicited proposal to DOE for the operation of Elk Hills. What happened to this proposal? If DOE objected to this proposal, what were the specific objections?

Answer: In its testimony before the House Subcommittee on Military Readiness, Chevron rightly pointed out that their proposal to take over the operation of the Elk Hills oil field had still not yet been formally accepted or rejected by DOE. While the proposal was not rejected in a formal letter, Chevron was advised, its proposal was no longer under active consideration. The Department did not object to Chevron's proposal, but its consideration of the proposal was overtaken by a concern, which in part reflected Congressional concern, that changes in the management and operation of Elk Hills should be accomplished using competitive procedures.

In addition, operating the NPOSR program on a truly business-type basis, which the Department and Chevron both support, is not a narrowly-focused cost-cutting initiative. The Chevron proposal did not address the many institutional impediments in the current Federal system to achieving true business-like operations that must necessarily embrace both cost cutting and prudent investments to achieve maximum value.

Question 11: President Reagan proposed to sell the NPR in 1987 and President Bush proposed to lease the NPR in 1991, 1992 and 1993. Congress prohibited even the study of sale or lease of the NPR in 1989. Why has there been so much opposition to the sale or lease of the NPR?

Answer: We have no specific information upon which to base an answer to this question. One possible reason why past efforts to privatize the Reserves, either through a sale or lease, were unsuccessful is that there was a perception that the government just was not getting a fair deal; that it was some kind of "give-a-way" to the private sector. To alleviate concerns about the possibility of selling the Reserves at too low a price, our current draft legislative proposal specifies that the minimum acceptable price shall be not less than the net present value of the sum of the anticipated revenue stream that the Secretary determines the Treasury would receive from the Reserves if they were not transferred, and the payments due to the State of California as authorized in the legislation. In addition, under this legislation, the President must specifically approve the privatization plan, including the minimum acceptable price. After Presidential approval, the plan is then sent to Congress for a 60-day lie-before period.

Question 12: You state in your prepared statement that the Department is proposing legislation to establish a corporation and then privatize the NPR. I would anticipate this proposed legislation to be complicated and could involve many of the standing committees of Congress. Where is this legislation? I would remind you that the current plan to consider this legislation would be during the early part this coming May.

Answer: Corporatizing the Naval Petroleum and Oil Shale Reserves prior to privatizing them was a feature of a draft proposal which has undergone significant modification based on interagency review and Congressional comments. In the current proposal, the first order of business will be to initiate an orderly and professional effort to sell the Reserves at a price that represents fair value to the taxpayers. The Reserves would be corporatized only if the President determines that offers to buy the Reserves fail to meet the minimum sales price established in accordance with criteria set forth in the legislation authorizing the sale. The proposed legislation to sell Naval Petroleum Reserves was transmitted to the Congress on May 4, 1995.

Question 13: What happens if Congress does not act to corporatize the NPR this year?

Answer: We believe that there exists a clear consensus between the Administration and the Congress that the current administration of the NPOSR is not as cost-effective as it could be and does not maximize the value of these assets to the Nation. Rather than restructure the program as a government corporation, we believe that the best course of action is to privatize these assets, at a price which represents a fair in the very near future which value to the Nation. We have submitted legislation which will provide the statutory authority to pursue this privatization initiative. Should Congress not act on this legislation this year, the current administrative structure for the NPOSR program will continue to exist and govern their operations. Although we will continue in our efforts to reduce costs and increase the value of these assets to the Nation, we believe that it will not be possible to approach our goal of maximizing value without significant revisions to current statutory impediments to doing so.

Question #14 Would some type of commercial approach to operating Elk Hills, whether it's the former Chevron proposal, or some other commercial approach, be a better way to run these reserves prior to the proposed sale than going to the time and expense of forming a government corporation for only a short period of time?

Answer: Corporatizing the Naval Petroleum and Oil Shale Reserves prior to privatizing them was a feature of a draft proposal which has undergone significant modification based on interagency review and Congressional comments. Our revised strategy is to initiate an orderly and professional effort to sell the Reserves at a price that represents fair value to the taxpayers. The Reserves would be corporatized only if the President determines that offers to buy the Reserves fail to meet the minimum sales price established in accordance with criteria set forth in the legislation authorizing the sale. We intend to continue our activities to operate the Reserves in a more cost-effective manner as we pursue our goal to privatize them in the next year or two.

Question 15: For the past several years, your department and the Administration has been attempting to sell the NPR. Why have these attempts been unsuccessful?

Answer: We have no specific information upon which to base an answer to this question. One possible reason why past efforts to privatize the Reserves, either through a sale or lease, were unsuccessful is that there was a perception that the government just was not getting a fair deal; that it was some kind of "give-a-way" to the private sector. To alleviate concerns about the possibility of selling the Reserves at too low a price, our current draft legislative proposal specifies that the minimum acceptable price shall be not less than the net present value of the sum of the anticipated revenue stream that the Secretary determines the Treasury would receive from the Reserves if they were not transferred, and the payments due to the State of California as authorized in the legislation. In addition, under this legislation, the President must specifically approve the privatization plan, including the minimum acceptable price. After Presidential approval, the plan is then sent to Congress for a 60-day lie-before period.

Question #16 As part of your plan to corporatize the NPR, DOE may "federalize" the Elk Hills workforce, including the current management. How is this action going to result in any change? Don't you believe that the operation could be more profitable if a person/management team with experience in running a profitable commercial oil and gas enterprise ran the corporation?

Answer: The possibility that all or part of the current workforce at Elk Hills may be "federalized" into a new government corporation to operate that field should not in any way be taken as an intent to maintain intact the current administrative system within which that oil field operates. It is our contention that it is this system that is principally at fault, not the program personnel, in creating impediments to operating the Reserves in a true commercial-like manner with an eye to maximizing value. Our proposal to privatize the Reserves at a fair price to the taxpayers, or to corporatize if privatization does not succeed, is designed to remove all

the restrictions and requirements placed upon the program by the current administrative system which have nothing to do with the efficient and effective operation of a commercial-type program. If the experience of the recently-corporatized Uranium Enrichment Program is of any relevance (and we believe it is), should the NPOSR program be corporatized, it is highly likely that a significant portion of the senior management of the new corporation would be brought in from the private sector, and hence would have extensive private sector experience on organizing and operating a large oil and gas production company.

Under the provisions of the Government Corporation Control Act, which the new corporation would be subject to, a "business-type" budget would have to be submitted to the Congress by the corporation which would have to account for both costs and revenues. Corporation managers will be accountable for costs and revenues, just like their private-industry counterparts.

Question 17: Do you have an up to date economic analysis of the individual reserves that uses realistic production and price forecasts and compares the return to the government from a sale as opposed to continued government ownership? If not, will you please prepare one and provide it to the committee?

Answer: The current legislative proposal prepared by DOE to privatize the Reserves establishes a minimum acceptable price of not less than the net present value of the sum of the anticipated revenue stream that the Secretary determines the Treasury would receive from the Reserves if they were not transferred, and the payments due to the State of California as authorized in the legislation. Hence, under this requirement, the return to the Federal government from a sale cannot be less than the return projected from continued Federal operation of the Reserves. The actual value of this return is subject to wide range, dependent as it is upon variables, such as future oil prices, which are difficult to predict. If Congress approves our legislative proposal, DOE will undertake a new and comprehensive analysis of the future

production and revenues anticipated from the Reserves, likely with the assistance of an independent commercial firm qualified in this subject area. The net present value of the sum of this projected revenue stream and the payments due to the State of California will be the minimum acceptable sales price of the Reserves.

Question 18: Some have proposed corporatization as a way for the government to retain its interest in the NPR but run it more like a business. If Congress decides not to corporatize or to sell the NPR, can DOE use its existing authority to eliminate the unnecessary internal regulations that apply and come to Congress for authority to waive the other unnecessary requirements? Would this be more cost effective than the time consuming and expensive process of corporation or sale?

Answer: As stated in our replies to other questions from the Subcommittee, we believe that it is in the best interest of the taxpayers to transfer the Reserves over to the private sector, at a price which represents a fair value for these assets. Only if privatization cannot be achieved do we propose that the Federal government continue its direct management and operation of the Reserves by restructuring them as a government corporation. We believe that, if the program is retained within the Federal government, this is the most efficient and effective way to achieve the kind of commercial-type operation of the Reserves that everyone seems to agree is needed in order to maximize their value. We do not agree that corporatization will be time consuming or expensive. The experts at the National Academy of Public Administration have advised that establishing the corporation could be done in as little as 30 days, and experience from the corporatization of the Uranium Enrichment Program indicates that a complete transition to a fully-corporatized operation could be done in about 6 months. Further, we have estimated that the incremental costs associated with the formation of the corporation are \$3.5-\$5.0 million. Although not inconsequential, this amount is barely 1 percent of just one year of revenues produced by the program.

Question 19: The budget request for NPR-3 (the Tea Pot Dome field) shows an increase of \$5 million for new development drilling in a field considered marginal and trying to maintain a positive net cash flow. Would a \$5 million well development or well workover program at Elk Hills earn more revenue for the taxpayers than the purported budget increase for Tea Pot Dome Field?

Answer: Yes it would, however, additional funding for development drilling for NPR-3 has been requested as the first step toward stripping the last remaining oil and proceeding with an orderly abandonment of that field over the next four to five years. It is expected that this will be the last significant drilling effort at NPR-3.

Question 20

Is it true that DOE and Chevron believe that there is a narrow window of time in which to make a lot of money from Elk Hills? If this is true, what is the basis for this assessment and does this narrow window explain why DOE has urged that corporatization be done quickly?

Answer: The giant Elk Hills field contains sufficient reserves of crude oil and natural gas to be commercially productive for the next 40 years. It is DOE's opinion that, due to changing engineering strategies in managing the largest of the hydrocarbon production zones, there will be a surge in the volume of natural gas sold from Elk Hills around the year 2000 and for the succeeding few years. This in turn will generate a surge in revenues during that period. However, this is not the reason why we have urged that the Reserves be restructured. DOE believes that it is in the best interest of the Nation to bring to closure once and for all the issue of how to manage the NPSR so as to maximize their value. We sense that there is universal agreement that the current management of this program is not as efficient and profitable as it could be, for a wide variety of reasons. Continuing to delay the changes that are needed to rectify this situation--privatizing the Reserves at a fair price, or corporatizing them if efforts to privatize are not successful--does nothing but delay the onset of commercial-type operations and perpetuates the current, inefficient, administrative system. We respectfully decline to comment on Chevron's position of this matter.

Question #21

Is DOE truly committed to trying to "mirror" a commercial oil and gas operation and that it is in the best interest of the taxpayer for it to manage a profit-making entity like an oil and gas field?

Answer

We have been consistent in our contention that the operation of a commercial-type enterprise such as the Naval Petroleum and Oil Shale Reserves is not an appropriate activity for the Federal government. We believe that it is in the best interest of the taxpayers to transfer these assets over to the private sector, at a minimum price which represents a fair value for these assets. Only if privatization cannot be achieved do we propose that the Federal government continue its direct management and operation of the Reserves. In that case, in order to maximize the asset value of the Reserves, we propose to mirror to the maximum extent possible a commercial-type operation by restructuring the Reserves as a wholly-owned government corporation.

Question 22:

What are the projected costs of forming a government corporation? Will these costs be recovered, and is it worth the effort, to set up a government corporation if it will be sold in only two years?

Answer:

Corporatizing the Naval Petroleum and Oil Shale Reserves prior to privatizing them was a feature of a draft proposal which has undergone significant modification based on interagency review and Congressional comments. Our revised strategy is to undertake an orderly and professional effort to sell the Reserves at a price that represents fair value to the taxpayers. The Reserves would be corporatized only if the President determines that offers to buy the Reserves fail to meet the minimum sales price established in accordance with criteria set forth in the legislation authorizing the sale. Expenses associated with forming the new corporation are estimated to be \$3.5 - \$5.0 million and would be quickly recovered from the revenues earned by the new corporation.

Question 23:

In the consideration to corporatize the NPR, there is a recommendation to transfer the Naval Oil Shale Reserve number 2 to the Department of the Interior for management and include the remaining 5 oil and oil shale reserves in a government corporation. What is the reason for this recommended action?

Answer: The recommendation to transfer Naval Oil Shale Reserve No. 2 (NOSR-2) to the Department of the Interior is based on our judgment that the Interior Department is the most capable Federal agency to manage undeveloped mineral properties such as NOSR-2. Parts of NOSR-2 also may have significant value as wilderness areas, and the legislation requires the Secretary of the Interior to study the appropriateness of including portions of NOSR-2, such as the Green River, in the national wild and scenic rivers system.

Question 24: Please explain why the price forecasts you used in your April, 1994 report on Organizational Alternatives for the Naval Petroleum and Oil Shale Reserves for your corporatization analysis were much higher than the price forecasts used for the other options you studied, i.e., lease or best practices? Would it not be almost a foregone conclusion that corporatization would look much better than other alternatives when you used the higher price number in analyzing that option?

Answer: The differences in product price forecasts between the alternatives analyzed in the April 1994 *Organizational Alternatives* report resulted from an assumption that a corporatized NPOSR, with the incentives and flexibilities of a private company, would be able to achieve higher prices for its hydrocarbon products than the Federally-operated program. We have continually updated and refined our analysis of this issue. Our current analyses narrow these price differences but do not change the conclusion that a corporatized NPOSR would outperform "business as usual operations" or the private sector in a lease case by a significant margin.

Question 25: Do you have a business plan for this new corporation? If not, how can you possibly expect to meet your time frames?

Answer: Based on interagency review and Congressional comments on our earlier proposal, the Department has revised its strategy to restructure the Naval Petroleum and Oil Shale Reserves program and has established as the primary goal the privatization of the Reserves at a price that represents a fair value to the taxpayers. Although we have initiated a project to develop a formal business plan should the Reserves be corporatized if the privatization efforts are not successful, the current

proposal of privatization first affords us with a more flexible and accommodating time frame within which to complete the business plan.

Question #26

DOE and Chevron have never finally decided "who owns what" in terms of the oil and gas resources at Elk Hills or finalized the boundaries of the field. Commercial oil and gas operators have indicated that under these conditions, the NPR could fetch a lower price. Given this situation, is it realistic to sell the NPR at Elk Hills at this time? How long will it take to address this issue? Why has this "finalization" not taken place thus far?

Answer:

The Unit Plan Contract between the Government and Chevron U S A prescribes how the equity shares in the Elk Hills field are determined by the two owners. That contract allows for periodic redetermination of equity ownership between Chevron and the Government, but makes no allowance for the final resolution of that ownership, i.e., "fixing equity." In order to do so, the partners must agree on a methodology to accomplish final determination of equity in the three reservoirs-- Dry Gas Zone, Shallow Oil Zone, and Stevens Zone. It is the objective of the Department to fix equity in those three zones prior to sale, and we understand that Chevron has expressed an interest in fixing equity in the near term as well. Provisions to assure that equity is fixed prior to sale will be included in the Department's privatization legislation. Until the recent decision by the Administration to privatize the Reserves, there was no immediacy to fixing equity. The Department has been engaged in equity redeterminations in both the Dry Gas and Shallow Oil Zones.

Question 27:

What exactly has DOE done to implement GAO's recommendations to include a non-consent clause in its contract with Chevron?

Answer:

The Department agrees with GAO that the addition of a non-consent clause, typical in industry agreements, would promote risk sharing and encourage investments that would enhance profits. Implementation of this recommendation will require consultation with Congress and agreement with Chevron. The Department will discuss this option with Chevron, which has expressed interest in such a provision, as new operating strategies for NPR-1 are developed.

Question #28

What has DOE done to more aggressively market its products at Elk Hills?

Answer

DOE has taken the following actions to more aggressively market the hydrocarbons produced at Elk Hills:

- Completed a study of the California natural gas market to prepare for increased natural gas sales volumes
- Lowered the bid guarantee level to make it easier for bidders to submit bids
- Increased the number of staff to specifically serve as customer representatives. They have met with most Elk Hills customers to identify their needs
- Formed a Marketing Task Force to develop a comprehensive marketing strategy. In addition to providing an overall strategy, this task force will identify specific areas for immediate improvements. Once these improvements are implemented, the group will then focus on long-term profitability.

Question #29

What has DOE done about the GAO recommendations with respect to the small-refiner set aside and coming up with a new price index to use in establishing and adjusting potential sales for their product?

Answer

Members of the NPOSR Marketing Task Force are currently discussing possible revisions to the price index with regular bidders for Elk Hills products. A revised index will be instituted when an appropriate substitute is found, which we expect to complete within the next 12 months. DOE has not yet taken actions to implement the GAO recommendation concerning the small-refiner set aside.

Question #30

With corporatization and then sale, what happens to the small-refiners that depend on Elk Hills for their products?

Answer: Based on records for the past two years, small refiners have been very successful in competitively acquiring Elk Hills crude oil without recourse to the special "small refiners set aside" mechanism that current law provides. Small refiners have failed to successfully bid for 25 percent of total production only once during this period. Should Elk Hills be completely privatized, we do not anticipate that a special treatment for small refiners would be continued by the regular commercial market. The current draft of our legislative proposal to privatize the Reserves does not contain any specific provisions for a small refiners set aside.

California School Lands

Question 31a: The California State Lands Commission has contacted the Subcommittee stating that there are two sections of land (1332 acres) which under the provisions of legislation in 1927 were to be granted to the state of California to support public schools. What is the status of this claim?

Answer: The suit filed by the State of California in 1987, claiming title to two sections of land located within the Naval Petroleum Reserves No. 1, concluded in 1992 when the United States District Court for the Eastern District of California ruled in favor of the United States (State of California, ex rel. v. Watkins, et al. (April 14, 1992) (Docket No. CV F-87-665 EDP)). The State did not appeal the final judgment against it.

Question 31b: Are there any other claims that you know of that could arise from the corporatization and/or sale of the NPR?

Answer: The Department has been petitioned by the California State Lands Commission and the California State Teachers' Retirement System and its members concerning state title to the lands in question. We cannot predict how that continued interest might translate into further legal claims in the event of the corporatization or sale of the NPR.

Mr. BATEMAN. Our next panel of witnesses will be Mr. Victor Rezendes from the General Accounting Office; Mr. Greg Matiuk, Vice President of Chevron U.S.A. Production Co.; and Mr. Harold Seidman, Senior Fellow of the National Academy of Public Administration.

Welcome to the panel. We are pleased to have you here.

Mr. BATEMAN. Mr. Rezendes, we are happy to hear from you.

STATEMENT OF VICTOR S. REZENDES, DIRECTOR FOR ENERGY AND SCIENCE ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. REZENDES. Thank you, Mr. Chairman. I want to echo what has been said by the first three witnesses, that GAO also strongly believes that the Naval Petroleum Reserve could be operated in a more businesslike manner. We have issued reports on that in the past, and I am sure you are quite aware of them.

What I want to leave you with is that there are things, opportunities now that we can do in the Federal Government to increase the profitability of the Naval Petroleum Reserve and that those actions will compliment any long-term organizational restructuring, including selling the reserves in the future.

Some of the things we talked about have already been mentioned, such as elimination of the MER. We talked about that earlier. One of the things Assistant Secretary Godley mentioned is the need to finalize the equity shares. That is really a critical piece, regardless of what direction we are going in the future. It is going to be very difficult to sell an asset if you can't tell a prospective buyer what percentage of that asset you really own. This is a mature field, and the common industry practice is that those equity shares would have been finalized.

There are also some concerns about not having a nonconsent clause in the unit contract. Basically, a nonconsent clause is an industry practice where both parties would agree to move forward on future drilling. Without it, it sort of restricts future drilling and puts a penalty of 300 percent if a partner does not participate in the drilling. He can then get the profits, but he has to pay a penalty of 300 percent to then join in.

We mentioned in the past the numerous reports on the need for a more reliable index to be used in terms of selling the oil in California and in terms of more aggressive selling. I think those points have also been made here. I won't go through them again.

Maybe I should skip directly to, if we move forward, which direction we should go. Again, our major thrust is that there are things to do, that need to be done now, before you can move forward in any direction and compliment that.

Moving to a Government corporation, the only advice I would give you there is, if you set that up, it should mirror as closely as possible an efficient commercial operation. That is really the key. Then once it is operating in that capacity, it is easier for a future prospective buyer to see how efficient it is and provide a more reasonable price.

Some of the things to consider there are things like: Having the corporation focus on maximizing profits; being able to retain earn-

ings; that it should be headed by a CEO with a solid record in the oil industry; that they should be relieved from Federal procurement laws; be able to hire, fire, and provide competitive salaries in the industry; and finally, the point we would like to make is that the borrowing should be done in the commercial sector and not through the Federal Treasury.

If we are going down the prospects of selling it, we think the Government needs to receive a fair market value for that asset. One way to do that is to establish a minimum price, the net price in value of future revenues.

We have looked at the administrative proposals. We do have some concerns about the caretaker budget and also in terms about the timeframes, the doability of doing all that in a very short time-frame.

With that, I will be happy to answer any questions.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Military Readiness,
Committee on National Security,
House of Representatives

For Release on Delivery
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NAVAL PETROLEUM RESERVE

Opportunities Exist to Enhance Its Value to the Taxpayer

Statement by
Victor S. Rezendes, Director,
Energy and Science Issues,
Resources, Community, and Economic
Development Division



Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to provide our views on how to enhance the profitability of the Naval Petroleum and Oil Shale Reserves. We will also discuss options such as forming a government corporation to manage and operate the reserves or selling the reserves to the private sector. Although our views are based on our prior reviews of operations at the Elk Hills oil and natural gas field in California, the largest and most profitable of the six Naval Petroleum Reserve sites, we believe that they are relevant to the other reserves as well. (App. I lists relevant GAO products.)

In summary, Mr. Chairman, our principal points are the following:

- First, we strongly believe that the reserves can be operated in a more businesslike manner. Over the past year, we have recommended various measures that can be taken to increase the revenues from the Elk Hills field. These measures include giving the Department of Energy, which administers the field for the U.S. government, more flexibility to set the rate of production in a way that maximizes profits and taking steps to market Elk Hills oil more aggressively. These and other measures we have recommended would complement possible future options such as forming a government corporation, selling the reserves, or in other ways enhancing their profitability.
- Second, if a decision is made to form a government corporation and then sell these reserves later, care should be taken to establish a financially sound corporate entity with as few government restrictions on earning profits as is possible. How much such a corporation could increase profitability and revenues to the Treasury would depend on

how closely it mirrored a commercial enterprise's efficiency. We believe that the government's role should be to effectively oversee such a corporation to ensure that its shareholders--the U.S. taxpayers--obtain maximum return on their investment. If a decision is made to sell the reserves, it is important for the government to ensure that it receives fair market value for them. The government is more likely to receive fair market value if it establishes a minimum asking price for these reserves and if bidding for these assets is competitive.

-- Third, we are concerned about the administration's proposal to form a government corporation to manage and operate these reserves and then sell the Elk Hills field by the end of fiscal year 1997. Our concern is that there may not be enough time to realize the full benefits of forming a government corporation before selling the Elk Hills field.

Before discussing these points further, we would like to present some background on the reserves.

BACKGROUND

The Naval Petroleum and Oil Shale Reserves, established in the early 1900s, consist of six oil and gas sites located in California, Colorado, Wyoming, and Utah. Originally intended as a source of fuel for the military, they remained largely undeveloped until the period following the oil embargo of 1973-74. In 1976, the Congress passed the Naval Petroleum Reserves Production Act, requiring that the reserves be fully developed and operated at their maximum efficient rate of production. The act generally requires that production be sold at public sale to the highest bidder and the revenues deposited in the Treasury. From 1976 to 1993, the reserves generated about \$15.7 billion in revenues at a

cost of \$2.9 billion.¹ According to the Department of Energy, the remaining oil and gas could sustain commercial-level production for another 40 years.

The reserves are jointly owned by the U.S. government and private companies. For example, the government owns about 78 percent of the reserves at the Elk Hills site, and Chevron U.S.A., Inc., owns 22 percent. A contractor, Bechtel Petroleum Operations, Inc., operates the oil and gas field at Elk Hills.

THE CASE FOR CHANGE

Since 1976, the purpose of the Naval Petroleum and Oil Shale Reserves has changed from emphasizing energy security to providing revenue to the U.S. Treasury. In response to the Arab oil embargo, the United States has also established a Strategic Petroleum Reserve designed to soften any negative impacts of disruptions in the oil supply. This evolution in mission, however, has not been accompanied by increased management flexibility to vary production, make investments, and cut costs in order to maximize profits and, therefore, the dividends paid to the Treasury.

OPPORTUNITIES TO ENHANCE PROFITABILITY EXIST NOW

Regardless of whether a decision is made in the future to develop a government corporation or sell the reserves, the Congress and the Department can act now to increase the reserves' profitability in ways that we believe complement any longer-term decisions. For instance, last year the Department, Chevron, and Bechtel cut their operating costs by approximately \$10 million. And, in negotiating an extension to Bechtel's contract, which

¹In constant 1993 dollars, revenues were \$22.5 billion and costs were \$4 billion.

expires in July 1995, the Department is looking for ways to provide Bechtel with more incentives to increase the profitability of the field.

In addition, we have recommended that the Congress amend the Naval Petroleum Reserves Production Act of 1976 to do the following:²

- Eliminate the so-called "maximum efficient rate" of production (MER) requirement and allow the Department to produce at a rate that maximizes profits. The production rate of oil and gas is currently set by statutory requirement at the rate that can be achieved "without detriment to the ultimate recovery" of the resource. The Department has operated the Elk Hills field in a fashion intended to recover the maximum amount of oil. In a commercially operated field, the owners strive to maximize the profitability of oil and gas production rather than simply recover the maximum amount of oil. Recent studies by the Department, Chevron, and Bechtel concluded that selling more natural gas from Elk Hills rather than reinjecting it into the field to increase oil production--as the Department requires to achieve the MER--could increase future profits by as much as \$200 million over the next 30 years.³

- Require that ownership or "equity" shares at Elk Hills be finalized. Equity shares determine how each partner shares

²Naval Petroleum Reserve: Opportunities Exist to Enhance its Profitability (GAO/RCED-95-65, Jan. 12, 1995) and Naval Petroleum Reserve: Limited Opportunities Exist to Increase Revenues From Oil Sales in California (GAO/RCED-94-126, May 24, 1994).

³This estimate is the present value of future profits and accounts for any profits forgone as a result of leaving an estimated 7.6 million barrels of oil in the ground.

in the expenses and profits of an oil and gas operation. In a typical commercial operation, the equity shares of the owners are finalized as specific percentages once the operation becomes mature--that is, after a number of years of operation, when good information is available about the size of the field. A statutory requirement and the contract between the Department and Chevron (called the "unit plan contract") preclude the Department from finalizing the equity shares. Moreover, changes to the equity shares are retroactively applied to all production and its related costs since 1942. As long as these equity shares are uncertain, money will be spent on costly redeterminations, and revenues will be deferred and forgone as projects are delayed while each owner determines if individual projects threaten its ownership position.⁴ Finalizing the equity shares encourages the partners to focus more on increasing profits for the venture as a whole.

Both of these recommendations are consistent with standard industry practice. Experts in the oil and gas industry that we spoke with and an independent industry panel are also in favor of finalizing the equity shares. Because Elk Hills is now a mature oil and gas field, much of the information needed to finalize the equity shares is already available.

We have also recommended that the Department take several actions to increase the profitability of the Elk Hills field, including the following:

⁴For example, the Department and Chevron spent about \$14 million on studies to support a redetermination of equity shares for two hydrocarbon zones in 1993 and 1994.

- Amend the unit plan contract to require the addition of a nonconsent clause.⁵ The purpose of a nonconsent clause is to share the risks or costs incurred in drilling wells. If these risks or costs are shared, it is likely that drilling ventures expected to be profitable will be more readily agreed to and embarked on. If such a clause is in place and a drilling project proves profitable, the partner that did not consent to the project in the beginning may share in the profit but is penalized, generally about 300 percent of the costs incurred by the partner that bore all the risk. Both Chevron and the Department agree that the lack of such a clause has proved a disincentive to drilling. Including a nonconsent clause in the unit plan contract is standard industry practice.
- Change the price index the Department currently uses to establish and make monthly price adjustments in its contracts for Elk Hills oil to an alternative price index that reflects enough transactions to yield a reliable price. A more reliable index could result in higher bids to the extent that bidders could more easily predict future movements of the index and, thereby, better predict how much they would be paying for Elk Hills oil over the life of their contracts.
- Market Elk Hills oil more aggressively by establishing a marketing presence in California and contacting prospective buyers regularly to educate them on the sales process and the logistics of transporting Elk Hills oil.

⁵Other aspects of the unit plan contract may also have to be reviewed to ensure that it conforms with commercial operating practices.

In addition to the above recommendations, other factors affect the profitability of the reserves, including the following:

- First, the current ban on exporting Alaska North Slope crude oil results in lower oil prices. In 1990, we examined the implications of lifting the export ban. We--and, more recently, the Department--estimated that if this ban were lifted, higher prices would result for Alaskan crude oil and crude oils produced on the West Coast, including Elk Hills oil.⁶ A bill has recently been introduced to lift the ban on exporting Alaska North Slope crude oil.
- Second, because of the requirement that no one buyer can purchase more than 20 percent of Elk Hills oil, buyers' transaction costs are increased, which could result in lower bids. Moreover, this requirement restricts the amount of oil that can be sold to the highest bidder.
- Finally, the preference that the Department grants to small refiners⁷ may be invoked unnecessarily in some cases because the Department does not first analyze, as required by statute, whether these refiners have adequate alternative supplies of oil before it makes the second part of the determination--that selling the Elk Hills oil to them under the preference provision is in the public's best

⁶Energy Security: Impacts of Lifting Alaskan North Slope Oil Exports Ban (GAO/RCED-91-21, Nov. 8, 1990) and Exporting Alaskan North Slope Crude Oil: Benefits and Costs, U.S. Department of Energy (June 1994).

⁷Small refiners are defined as those with a total input of crude oil of 75,000 barrels or less per day. Invitations for bids state that this preference will be invoked when small refiners do not win 25 percent of the oil being sold.

interest. Bids may be lower than they would otherwise be as a result of this preference.

While our recommendations and changes to address the above factors are consistent with operating the reserves more as a commercial enterprise, their adoption neither requires nor precludes other options.

FURTHER POSSIBILITIES

Steps that can be taken now to increase the profitability of the Elk Hills field do not fully address the inherent inefficiency of having the government involved in operating and managing what could otherwise be a strictly for-profit enterprise. Two measures to further reduce or eliminate this inefficiency have been suggested recently, namely, forming a government corporation to manage and operate the reserves or selling these assets. How much such a corporation could enhance profitability and revenues to the Treasury would depend on how closely it mirrored a commercial enterprise's efficiency. In the case of selling the reserves, the return to U.S. taxpayers would depend directly on the price received. A government corporation could also serve as a way station between the situation today and the eventual sale of the reserves. For example, the administration has proposed establishing a government corporation to manage and operate the reserves and then selling Elk Hills by fiscal year 1997.

Factors to Consider in Establishing a Government Corporation

The possible benefits of a government corporation include increased flexibility to reduce costs and allowing more timely investments to achieve greater profits than are currently achieved at the reserves. However, the extent to which these benefits are realized depends on how closely the management and operation of

such a corporation mirrors that of an efficient commercial, for-profit oil and gas operation. Consequently, in designing such a corporation, care should be taken to copy as closely as possible the model of a well-managed and -operated private corporation. Deviations from this model are likely to result in lower profits and revenues to the Treasury and, thus, to the taxpayers. In the event of a future sale, another important benefit of managing and operating such a corporation as its private counterpart is the development of better information to assess the fair market value of the reserves. This information would help the government determine an appropriate minimum asking price.

We believe that a number of factors are important in designing a government corporation to efficiently manage and operate the Naval Petroleum and Oil Shale Reserves. Such a corporation should make budgeting decisions based on the goal of maximizing profits, react to changing market conditions, and accomplish its mission with as few layers of management as possible. Accordingly, this corporation should be

- able to retain and utilize the revenues necessary to maximize profits;
- headed by a chief executive officer with a solid record of managing oil and gas fields in the private sector;
- empowered to pay reasonable but competitive salaries to attract and retain employees with the expertise needed to maximize profits; and

-- allowed to borrow funds in the private sector as needed, on the basis of a proven track record of profitability.⁸

Factors to Consider
in Selling the Reserves

Selling the reserves could result in a greater return to the Treasury, especially if buyers believe they can operate the reserves more efficiently than the government. In that case, it is likely that the winning bid would exceed the government's minimum asking price, defined as what the government could reasonably earn by continuing to own these reserves.

To protect the interests of U.S. taxpayers, the government's minimum asking price should reflect the present value of the future net revenues that it would expect to earn if it chose not to sell these reserves. This estimate should include reasonable projections of production and costs under continued government operation, given forecast oil and gas prices.⁹

A competitive bidding process would also help protect the interests of U.S. taxpayers to the extent that it encouraged higher bid prices. While resulting bids could be higher or lower than the government's minimum asking price because of differences in

⁸Lenders to this corporation could regard such loans as implicitly guaranteed by the federal government, notwithstanding the corporation's actual performance. This likely perception suggests the need for more oversight than is customary in the private sector. In the legislation authorizing such a corporation, the Congress could include, as it has in the past, a statement explaining that bonds issued by the corporation, the payment of the principal, or interest thereon shall not be considered obligations of the United States and explicitly are not guaranteed by the United States.

⁹Two of these variables, production and costs, can be influenced by the way the government manages and operates these reserves. As discussed earlier, steps can be taken to increase the profitability of these reserves by adjusting production and costs.

prospective buyers' estimates of production, costs, and prices, the government would not have to sell these reserves for less than its minimum asking price. To the extent that bidders believe they can operate the reserves more efficiently than the government, their bids should exceed the government's estimate of the present value of the future net revenues that it could earn by continuing to operate the reserves.

Beyond these basic principles, a number of other considerations could lower the sales price of these reserves, including a continued ban on exporting Alaska North Slope crude oil and the lack of finalized equity at Elk Hills.¹⁰ If equity shares are not finalized and the U.S. government decides to sell its share of Elk Hills, the price it receives could be discounted to reflect uncertainty about the size of its share.

Administration's Proposal

The administration proposed in its fiscal year 1996 budget to develop a government corporation to manage and operate the Naval Petroleum and Oil Shale Reserves and to sell the Elk Hills field by the end of fiscal year 1997. Under this proposal, the Department would have to develop, set up, and operate a government corporation and then sell the Elk Hills field in less than 2 years' time. It is unclear what benefits can be realized from operating a government corporation for such a short time before selling the Elk Hills field. The Department estimates that developing this government corporation will cost between \$3.5 million and \$5 million. If the goal is to sell the reserves by the end of fiscal year 1997, emphasis should be placed on preparing these reserves

¹⁰In addition, buyouts or severance packages for displaced contractor and federal employees could also reduce the proceeds from a sale. These costs could also occur if a corporation were formed to operate the reserves.

for sale and taking steps to ensure that the government gets a fair and competitive price.

In anticipation of developing such a corporation, the administration has also proposed cutting the budget for operating the reserves by approximately 46 percent from fiscal year 1995 levels. This reduced budget is likely to result in less production of hydrocarbons and lower gross revenues in the short term, according to the Department's estimates. Revenues could decrease because the Department has indicated that no new investments would be made, including the drilling of wells, under the proposed budget. If the Department could set up a government corporation quickly, it is possible that these effects on revenues could be offset. On the other hand, if it takes more time to get such a corporation "up and running," the net effect of this reduced budget for fiscal year 1996 may be to shift some production and revenues to future years. It is unclear what effect delaying production and revenues to future years would have on the sales price of the reserves if they are sold at the end of fiscal year 1997.

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In conclusion, regardless of what alternative is adopted for the Naval Petroleum and Oil Shale Reserves, the goal should be to protect the interests of U.S. taxpayers by getting a reasonable return on this asset. If a decision is made to form a government corporation, care should be taken to establish a financially sound corporate entity with as few government restrictions on earning profits as is possible. If a decision is made to sell the reserves, it is important for the government to ensure that it receives fair market value for them. We believe that steps can be taken now--such as giving the Department more flexibility to set the rate of production in a way that maximizes profits and marketing Elk Hills oil more aggressively--that would be compatible with any more fundamental management changes.

This concludes our prepared statement, Mr. Chairman. We would be pleased to respond to any questions that you or other Members of the Subcommittee may have.

APPENDIX I

APPENDIX I

RELATED GAO PRODUCTS

Government Corporations: Profiles of Recent Proposals (GAO/GGD-95-57FS, forthcoming).

Naval Petroleum Reserve: Opportunities Exist to Enhance its Profitability (GAO/RCED-95-65, Jan. 12, 1995).

Maritime Industry: Cargo Preference Laws--Estimated Costs and Effects (GAO/RCED-94-34, Nov. 30, 1994).

Government Corporations: CFO Act Management Reporting Could Be Enhanced (GAO/AIMD-94-73, Sept. 19, 1994).

Naval Petroleum Reserve: Limited Opportunities Exist to Increase Revenues From Oil Sales in California (GAO/RCED-94-126, May 24, 1994).

Energy Security: Impacts of Lifting Alaskan North Slope Oil Exports Ban (GAO/RCED-91-21, Nov. 8, 1990).

Naval Petroleum Reserve No. 1: Examination of DOE's Report on Divestiture (GAO/RCED-88-151, Aug. 25, 1988).

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Mr. BATEMAN. Thank you very much, Mr. Rezendes. Perhaps it would be better if we ask all of you testify and then we will have the questions for you.

So, our next witness will be Mr. Matiuk of Chevron.

**STATEMENT OF GREG MATIUK, VICE PRESIDENT, CHEVRON
U.S.A. PRODUCTION CO.**

Mr. MATIUK. Thank you very much, Mr. Chairman, and members of this subcommittee. My name is Greg Matiuk. I am vice president of Chevron U.S.A. Production Co., and the general manager of our Western Business Unit, headquartered in Bakersfield, CA.

Our primary interest in Elk Hills, as joint owner, is the same as the U.S. Government and the taxpayer; namely, that maximum financial benefit be derived from the Elk Hills operation. Elk Hills must be competitive with the very best fields in the United States and internationally. As has already been testified, the operation is not currently meeting these standards, nor has it for quite some time.

Over the past 22 months alone, we have needlessly spent about \$45 million, and we spend another \$1 million needlessly every week that we operate out there under the current regime.

We have a twofold purpose in being here today. First, and most important, is to urge Congress to expeditiously move forward with the selling of the Government's interest at Elk Hills. We believe that is the ultimate best solution.

Second, but alternatively, should the Government decide to retain its interest in the asset, we urge that Congress act as follows: To adopt a commercially competitive operation at Elk Hills; to increase the proposed fiscal year 1996 caretaker budget as described to a minimum level of \$150 million—this would include any carryovers from the 1995 fiscal year; and, third, we recommend that Congress reject the budget proposal to form a government corporation to manage and operate Elk Hills.

Since 1992, we have recognized a disturbing trend at Elk Hills. Operating costs and manpower levels have been rising, while in the rest of industry—both domestically and internationally—those costs and manning levels have been dropping. Our recommended solution to these problems was submitted to the Department of Energy in May 1993 in the form of a three-volume, very detailed, proposal recommending that Chevron, as coowner, assume operatorship of Elk Hills in August 1995. This would coincide with the normal end of the current contract of a 10-year operation.

In this proposal, we identified cost savings opportunities ranging from \$37 to \$77 million a year, and with the single objective of achieving a commercial operation at Elk Hills, Chevron would bring its global experience and core business focus in exploration, production and operations to manage the Elk Hills field at cost. In other words, Chevron as coowner would operate without fee.

We believe DOE has the authority under applicable statutes and the unit plan contract to use its partner as operator of Elk Hills; and, as a matter of fact, Chevron did operate the reserve for 31 years from 1944 to 1975, so we are not talking about establishing a precedent, which leads me to the current situation.

DOE has neither accepted our proposal nor, in fact, formally rejected it. Nor have they requested tenders for a competitive operator to follow the current Bechtel contract. Instead, DOE has decided to extend the current contract with Bechtel for a year with the option for a second year, which will continue to leave millions of dollars of waste on the table, which is not in the best interest of taxpayers or the Government.

As we move forward our major concern is the caretaker budget status. The proposed budget of \$78.8 million, which will be directed at NPR 1 or Elk Hills, is about 50 percent less than the current year. As stated by DOE, this budget reduction will force the elimination of all capital investments and well work overs which would cause lost production and forgo other profitable opportunities. This reduction would result in reduced revenues of \$230 to \$320 million over the next 4 years. Simple arithmetic belies the logic behind such an irresponsible budget proposal. Why would anyone want to cut expenses \$80 million knowing full well in advance that revenue would be reduced \$230 to \$320 million? It does not make good business sense.

As part of that same budget proposal, the Department of Energy has recommended the formation of the Government corporation. We believe that the establishment of a corporation, be it for 1 year or for a number of years in the holding pattern as Congressman Thomas described, is not required. There has been no accurate up-to-date cost-benefit analysis of forming a corporation. In fact, the only two studies that we are aware of is the Department of Energy's April 1994 study entitled, "Organization Alternatives for the Naval Petroleum and Oil Shale Reserves"; and the results or the data from that study were used in the NAPA study entitled, "Restructuring the Naval Petroleum and Oil Shale Reserves." Both of these studies concluded that corporatization was the best alternative.

The conclusion, however, is based on invalid data. The figures used for production forecasts for the corporatization case were higher than any other case that it was compared to. The crude price forecast in some years were more than double those prices used for other cases evaluated. We ask why this is so. These high forecasts not only generate the expectation of unreasonably high financial returns for the corporation, but they inflate and, in fact, misrepresent the true value of Elk Hills. We are concerned that creation of false expectations on fair market value of Elk Hills will, in itself, jeopardize a suitable conclusion of a sale.

Chevron supports the recommendations of both this and previous administrations to sell the Government's share of Elk Hills. Absent having Chevron operate as previously described, this is the most expeditious and, perhaps, the only way to accomplish the objectives of obtaining truly commercial operations at Elk Hills.

In conclusion, I would like to leave the following five points: First, the statutes governing Elk Hills and the unit plan contract between the U.S. Government and Chevron requires that Government shall always use its best endeavors to secure as economical an operation as is consistent with sound oilfield engineering practices. This has not happened. The statutes are not being adhered to.

Second, Chevron's sole objective is for Elk Hills to adopt a commercial operation.

Third, the best, and perhaps the only, way to achieve commercial operation is through sale.

Fourth, we see no justification or logical rationale for corporatization.

Fifth, we urge Congress to move quickly with a simple solution.

**Hearing before the
House Committee on National Security
Subcommittee on Military Readiness**

March 22, 1995, 2:00 pm

INTRODUCTION

Mr. Chairman and members of the Subcommittee, my name is Greg Matiuk. I am a Vice President for Chevron U.S.A. Production Company and the General Manager of our Western Business Unit, headquartered in Bakersfield, California. Thank you for the opportunity to appear before you today to provide input on the operations at Naval Petroleum Reserve No. 1, or as it is more commonly known, Elk Hills. In fact, Elk Hills is a more appropriate name since neither the Navy nor the "reserve" status have been associated with this field for the past 19 years.

Our primary interest, as joint owner, is the same as that of the U.S. Government and the taxpayers, namely, that maximum financial benefit be derived from the Elk Hills operation. Elk Hills *must* be competitive with the best in the oil industry and it currently is not, nor has it been for some time. Elk Hills must be operated in a commercial manner if maximum financial benefit is to be realized. The statute governing the operation of Elk Hills and the Unit Plan Contract between the Government and Chevron both require that DOE secure as economical an operation as possible. Based on our experience at Elk Hills, we have seen that DOE is not doing this nor is it running a commercially competitive business.

In fact, over the past 22 months alone, the lack of commercially competitive practices at Elk Hills has resulted in over \$45 million of excessive expenditures. This wasteful spending will continue to increase by over \$1 million for every week that dramatic change resulting in a commercial approach at Elk Hills does not occur.

There are many political constraints and numerous other checks and balances within the Government structure that have inhibited commercial success at Elk Hills in the past. However, Congress, over the next few weeks, has the opportunity to make changes to the future ownership, management and operation of Elk Hills which would result in a commercially competitive business providing maximum financial benefit to the U.S. Government and taxpayers.

We have a twofold purpose in being here today. First, to urge Congress to expeditiously move forward with the selling of the Government's interest in Elk Hills. Second, and alternatively, should Government decide to retain its part ownership of Elk Hills, to urge Congress to act as follows:

1. adopt a commercially competitive operation at Elk Hills utilizing a standard, industry commercial operating agreement;
2. increase the proposed FY 1996 "Caretaker Status" budget to a minimum level of \$150 million (including FY 1995 carryover and new FY 1996 appropriations);
3. accept the General Accounting Office's (GAO) recommendations contained in its January, 1995 report to the U.S. Senate Committee on Armed Services; and
4. reject the FY 1996 budget proposal to form a Government corporation to manage and operate Elk Hills.

BACKGROUND

The Elk Hills field has been a fully producing oil and gas field since 1976 when Congress and President Ford authorized its change in status and mission. As DOE correctly states in its FY 1996 budget, "Elk Hills no longer serves a strategic purpose for the Navy. The Public Law in effect changed the rationale for the program from that of a reserve source of fuel for the military to one of increasing domestic oil production and generating revenues for the U.S. Treasury."

As Congress deliberates over the future of Elk Hills, the following fundamental questions should be considered:

1. Should the U.S. Government stay in the business of exploring, producing and marketing oil and gas?
2. How best will taxpayers' costs be minimized and the production, revenues and profits be maximized?
3. Should taxpayers be asked to continue paying for costly, burdensome regulations, reporting requirements and other non-commercial practices at Elk Hills which are *not* used in privately-owned commercial oil fields?
4. Can the government structure, with its traditional checks and balances, realistically compete in today's ever-changing, fast changing business environment that requires risk-taking decisions and continual improvements?

Chevron is concerned about these issues, not only as a taxpayer, but also as a business partner with the U.S. Government. Chevron has a vested interest in the future of Elk Hills, with its 22% ownership stake. As the only other owner, Chevron has been in partnership with the U.S. Government for over 50 years at Elk Hills. Chevron's full history, however, at Elk Hills extends over 75 years to when Chevron's predecessor company, the Standard Oil Company, of California first discovered and produced oil in the field.

In the balance of my testimony I will share Chevron's perspective on the current state of Elk Hills and the impact the changes which have been proposed for the future ownership, management and/or operation of Elk Hills will have on obtaining maximum financial benefit from this asset. This perspective is based on the over 100 years of global experience Chevron has enjoyed as a leader in the oil and gas industry. This experience includes Chevron's current ownership in over 400 jointly owned domestic oil and gas fields, of which 40% are joint-venture partnerships with other companies. The testimony below covers the following eight points of interest and concern to Chevron:

1. Current State of Elk Hills;
2. Chevron as Owner/Partner as Operator (Under a commercial operating agreement);

3. Third-Party Contract Operator (Under a commercial operating agreement);
4. Extension of Current Third-Party Contract (Under a Management and Operations [M&O] contract);
5. FY 1996 "Caretaker Status" Budget;
6. Formation of a Government Corporation;
7. Opportunities to Enhance Profitability; and
8. Sale of the Government's Interest

CURRENT STATE OF ELK HILLS

In 1992, Chevron recognized a disturbing trend at Elk Hills that was contrary to the trends in the rest of the U.S. oil industry. Oil field operating costs and manpower levels in the oil industry have been significantly reduced. Conversely, at Elk Hills operating costs and manpower levels have steadily and significantly increased through FY 1993. This trend has resulted in reduced annual production, revenues and profits at Elk Hills.

Chevron conducted an intensive study of Elk Hills during 1992 and the first half of 1993 to identify the root cause of this negative trend. The study showed that Elk Hills was not being operated in a manner consistent with other jointly-owned commercial oil fields. Our study specifically found that Elk Hills is encumbered with costly excesses in the areas of:

1. operator staffing (both contract and subcontract);
2. unnecessary layers of oversight and monitoring;
3. extensive, non-value added regulatory and reporting burdens; and
4. differing objectives and incentives among Chevron, the Government and the third-party contract operator.

Finally, the study also showed that Elk Hills lacks the critically necessary commercial/profit oriented culture which can adapt to the ever-changing and competitive economy we see today.

These findings were confirmed by the Independent Industry Panel commissioned by Congress. In October, 1993 the Panel reported:

1. Elk Hills has a 200% higher staffing level, compared to the THUMS oil field in Long Beach, CA. (THUMS is another public/ private joint venture, which itself has staffing at twice the level of the average privately owned commercial oil field);

2. the fragmented and multi-layered characteristics of DOE authority over Elk Hills adds to organizational inefficiencies; and
3. there is an inordinate amount of time being spent on non-value added tasks.

The consistent themes in the Panel report confirmed Chevron's findings that Elk Hills is overstaffed, is wasteful in spending and is not operated as a commercial venture.

CHEVRON AS OWNER/PARTNER AS OPERATOR (Under a commercial agreement)

Chevron's recommended solution to these problems was submitted to the Department of Energy (DOE) on May 19, 1993 in the form of a three volume proposal recommending that Chevron, as co-owner, assume operatorship of Elk Hills on August 1, 1995. This would coincide with the end of the current operator's 10-year contract (Bechtel Petroleum Operations, Inc. is the current operator). In this proposal, we identified cost savings opportunities of \$37-77 million/year resulting from downsizing operator staffing, and eliminating the award fee, and other field work process efficiencies. With the *single* objective of achieving a *commercial operation* at Elk Hills, Chevron would bring its global experience and core business focus of exploration, production and operation of oil and gas fields to Elk Hills *at cost*. In other words, Chevron would operate without receiving a fee. This would save the fee of \$7 million/year paid to the current contract operator. In addition, as a co-owner, Chevron also has the built-in incentive to reduce operating costs and extend the productive life of the asset.

Having an owner as operator, utilizing a commercial approach, is *standard practice* in oil industry joint-ventures. This option continues to be available and, Chevron believes, will achieve the *most* effective commercial operation as long as the Government maintains its ownership interest in the field. DOE has authority under applicable statutes and the Unit Plan Contract to use its partner, Chevron, to operate Elk Hills. Chevron, in fact, was the operator of Elk Hills for 31 years, from 1944 to 1975.

In addition, to reduce the economic waste, DOE has the authority to waive and/or eliminate most of the excessive, non-value added regulatory burdens that it has imposed on the Elk Hills operations including:

1. DOE Orders;
2. application of the DOE Acquisition Requirements;
3. application of the Cost Accounting Standards;
4. procurement flow-down clauses imposed on sub-contractors;
5. property management requirements; and
6. a vast array of internal reporting requirements.

Most of these excessive burdens have been self-imposed by DOE applying policies and procedures that were generically designed for nuclear applications, and *not* for the business of profitably producing oil and gas. To the extent DOE needs additional authority to waive existing requirements, Congress could provide it. None of these burdens are imposed on private, commercially-competitive operations. We see no need for them to continue at Elk Hills under any scenario.

Chevron continues to believe that having it as the owner/operator is the best way to achieve, immediately, the most effective commercial operation if Government ownership continues, *provided* the burdensome and unnecessary regulatory requirements are eliminated or waived.

My primary focus here today, however, is not to sell you on Chevron's proposal to become operator of Elk Hills; in fact we prefer not to be operator if there is another way to achieve the *same level* of cost savings and operate commercially. We do not believe there is. I want to impress upon you the need for urgency in addressing the challenges at Elk Hills. There is a *very* large gap in financial performance between Elk Hills and a comparable, industry field commercially operated. This disparity need not and should not continue.

Since this gap was first identified and documented in our May 1993 proposal, limited corrective action has resulted in some cost savings. Over the past 15 months Elk Hills has reduced costs and manpower levels by approximately 7%. These reductions began only after Chevron submitted its proposal to operate. Significantly, the cumulative lost opportunity of cost savings for the U.S. Government, taxpayers and Chevron over the past 22 months now amounts to over \$ 45 million. This lost opportunity will continue to increase by over \$1 million for every week that dramatic change resulting in a commercial approach at Elk Hills does not occur. Further cost reductions of 40-50% are required to achieve commercial excellence at Elk Hills.

THIRD-PARTY CONTRACT OPERATOR (Under a commercial operating agreement)

- A third-party contractor could operate Elk Hills under a standard commercial operating agreement and provide many of the same benefits provided by an owner/operator. However, you would lose the significant benefits of no annual award fee and the built-in incentive to continuously improve field profitability that only Chevron as owner would bring.

Although clearly not as attractive as the owner/operator option, a third-party operator under a commercial operating agreement would be a significant improvement over the status quo. However, going through the usual 12-18 month DOE procurement process to get to this option would significantly add to the already wasted expenditures and overall lost opportunity which now exceeds \$45 million.

EXTENSION OF CURRENT THIRD-PARTY CONTRACT (Under an M & O Contract)

DOE has not accepted Chevron's proposal to operate nor decided to seek competitive bids to operate on the basis of a commercial approach. Instead, DOE has decided to extend the current contract operator's Management and Operations contract for one year with an option to extend for a second year. The wasteful spending will continue, although, this extended contract will include some attempt at rightsizing the organization and modifying the terms and conditions of the

operation to move toward a commercial approach. Unfortunately, any contemplated rightsizing, if actually implemented, will only reduce operating costs a fraction of what could otherwise be realized now through adherence to commercial best practices. Even an *improved*, extended contract will leave several million dollars on the table, adding to the cumulative lost opportunity for the U.S. Government, taxpayers and Chevron stockholders.

This extension of a 1-2 year M&O contract with the current operator does not serve the best interest of the public; nor does it secure the economical operation as required under the Unit Plan Contract and by statute.

FY 1996 "CARETAKER STATUS" BUDGET

As co-owners, the Government and Chevron, should be extremely concerned with the idea of a "caretaker status" budget for FY 1996. This idea does not make good business sense. The risk which accompanies the "caretaker status" budget is very real. The budget of \$78.8 million, as currently proposed, is approximately a 50% reduction, or \$80 million below the FY 1995 budget. DOE estimates that this budget reduction will force the elimination of all capital investments and well workovers which would cause lost production and forgo other profitable opportunities. This would reduce revenues over the next four years by approximately \$230-320 million. The net loss to the U.S. Government, the taxpayers and Chevron could be as high as \$150-260 million. *Simple arithmetic belies the logic behind such an irresponsible budget reduction. Why would anyone want to cut expenses \$80 million, and as a consequence reduce revenue by \$230-320 million?*

If approved, the \$78.8 million in newly appropriated funds for Elk Hills could be combined with available carryover funds from the Elk Hills FY 1995 budget. This would provide \$108-130 million for Elk Hills. However, this would still be insufficient funding. DOE estimates, that to maintain current operating levels, expenditures would need to be \$190 million. The "caretaker status" budget of \$ 78.8 million will fall \$60-82 million short. This shortfall will result in lost production, lost revenues and lost opportunities for field development. Only under a fully implemented commercial operation, which DOE does *not* propose (and in fact, has rejected) could such a budget reduction be imposed on Elk Hills without having a negative impact on production, profits and revenues. Again, simple arithmetic belies the logic behind such an irresponsible budget reduction.

Chevron estimates a *minimum* of \$150 million (including FY 1995 carryover and new appropriations) is required to maintain production and revenue at current levels. This estimate is based on the following assumptions:

1. the current contract operator reduces its staff by 22%;
2. commercial practices, as seen as standard in the industry, are incorporated into the current operator's M&O contract extension; and
3. these funds of \$150 million are allocated to Capital Expenditures-\$35 million, Operating Expense-\$110 million, and DOE oversight-\$5 million.

4. production levels are maintained at the "Maximum Efficient Rate"

FORMATION OF A GOVERNMENT CORPORATION

DOE has proposed corporatizing Elk Hills (along with the rest of the Naval Petroleum and Oil Shale Reserves) in FY 1996 and then selling Elk Hills in FY 1997. Since corporatization would allow Elk Hills to be self-funded, no Congressional appropriated funds would be required for the operation of Elk Hills. The expenses of operating the field would be funded by the revenues generated from the sale of the production.

Chevron is not optimistic that the still undefined corporatization/self-funding authorization will be approved by October, 1995 or become a reality in FY 1996. If Corporatization, or at least the authority for becoming self funding, is not approved by October 1, 1995 then the DOE fallback position will be the proposed "Caretaker Status" budget. As discussed above, a "caretaker status" budget will not provide adequate funding for the continued current levels of production and will result in reduced revenues at Elk Hills.

In addition to our serious concerns with the "caretaker status" budget, Chevron believes the proposal to form a Government corporation for *one year* is an unnecessary and costly step for the Government to sell its interest in Elk Hills. DOE claims that by corporatizing for one year, it could increase the fair market value of its ownership share of Elk Hills when it is sold in FY 1997. DOE's rationale is that during this one year, significant investment projects could be implemented at Elk Hills which would have a positive impact on the worth of the field. Specific plans and details of such investments have not been released by DOE, nor is Chevron, as DOE's partner aware of any such plans. *Indeed, based on Chevron's experience in operating, buying and selling oil fields, we do not know of any investment projects which could be implemented in 3-5 years, let alone one year, that would significantly increase the fair market value of a sale of the Government's share of Elk Hills.*

Chevron strongly opposes this option of forming a government corporation to manage and operate Elk Hills. No accurate, up to date cost/benefit or economic analysis exists to support this option. The only economic analysis of which we are aware is in DOE's April, 1994 study entitled "Organizational Alternatives for the Naval Petroleum and Oil Shale Reserves". The results of this economic analysis were also used in the April, 1994 report by the National Academy of Public Administration (NAPA) entitled "Restructuring the Naval Petroleum and Oil Shale Reserves". Both of these documents concluded that forming a government corporation resulted in more favorable economic return to the Government than any other option (i.e. commercial operation or leasing the Government's interest).

However, this conclusion is based on an invalid economic analysis. The figures used for price and production forecasts for the corporatization case were much higher than the numbers used by DOE in forecasts for any other option. Why? The oil price forecasts for the corporation case were, in some years, more than double the other options. Why? These high forecasts not only generate the expectation of an unreasonably high financial return from a Government corporation, but also inflate and misrepresent the value of Elk Hills and create a false expectation of potential sale value.

To properly evaluate and analyze the feasibility of forming a government corporation the following data should be required from DOE:

1. a realistic cost estimate to set up and maintain the corporation (Based on formation of other government corporations these costs could run in the \$15-20 million range initially and \$1 million annually);
2. a detailed transition plan outlining all the steps of transition and a timetable to implement each step to become a corporation;
3. a business plan for the one year this corporation will be in effect which sets forth in detail all revenues, expenses and investment plans; and
4. a plan for changing the mindset/culture of all government employees, who will be absorbed by the corporation, to move them from a government structure to a commercial industry structure. (We all know there is a significant difference).

The benefits of forming a government corporation, as cited by DOE, include: becoming self-funded; getting out from under burdensome, non-value added regulations; being able to study sale/privatization options, eliminate the "Maximum Efficient Rate" (MER) of production requirement; being able to make field investments to enhance the future market value when selling the governments share; operating the field in a commercial manner. Other than becoming self-funding, the benefits suggested by DOE, of a government corporation could be realized *without* going through the expense and time consuming process of establishing a government corporation for just one year. We strongly recommend foregoing the unnecessary and costly step of corporatization. Corporatization would only lead to further delays and wasteful spending. There are those who think corporatization is the long term solution to the problems at Elk Hills. Chevron does not believe the formation of a government corporation would result in the commercial approach necessary to maximize financial benefit. There has been no evidence presented to suggest that it would.

OPPORTUNITIES TO ENHANCE PROFITABILITY

Other opportunities to enhance the profitability of Elk Hills were identified by GAO in its January, 1995 report to the U.S. Senate Committee on Armed Services. As long as the Government remains an owner at Elk Hills, Chevron supports GAO's recommendations to:

1. eliminate the requirement to produce at MER;
2. finalize the equity ownership shares between DOE and Chevron; and
3. adopt a Non-consent Clause in the Unit Plan Contract, so either owner could pursue exploration, development and production activities independently.

However, if only these recommendations are implemented, many of the benefits of a commercial operation will not be realized.

SALE OF THE GOVERNMENT'S INTEREST

Chevron supports the recommendations of both this and previous Administrations to sell the Government's share of Elk Hills. Absent having Chevron operate, as outlined above, this appears to be the most expeditious and perhaps the only way to accomplish the objective of operating Elk Hills commercially. Regardless of who buys the government's share, this option will result in a commercial operation. The buyer would know that if it were the successful bidder, the field will be operated in a commercial manner in the future. There are three primary factors any prospective buyer would consider in determining fair market price for Elk Hills. These factors include:

1. current and projected revenues or cash flow;
2. value of recoverable reserves; and
3. upside potential for increasing production, reducing expenses and adding reserves.

The benefits of a sale for the U.S. taxpayers include:

1. an immediate return based on fair market value of the Government's share of this asset;
2. ongoing revenue from federal, state and local taxes; and
3. elimination of the continuing waste of \$1 million per week.

CONCLUSION

Let me conclude with the following five points:

First, the statute governing Elk Hills (The Naval Petroleum Reserves Production Act) mandates that the Secretary of Energy "produce the reserves at the maximum efficient rate consistent with sound engineering practices". This is not happening. In addition, the Unit Plan Contract between the U.S. Government and Chevron requires that the Government "shall always use its best efforts to secure as economical an operation as is consistent with sound oil field engineering practices". This is not happening. This non-commercial business approach should not be allowed to continue.

Second, Chevron's *sole* objective is for Elk Hills to adopt a commercial operation and stop wasting over \$1 million per week. Our definition of a commercial operation means field operating costs less than \$100 million/year (currently about \$125 million/yr) with continuing reduction; a profitability mindset/culture throughout the operator's organization; and all work processes modeled after the best practices in private industry.

Third, the best and perhaps only way to achieve a commercial operation is through a sale of the government's share of Elk Hills. With continued Government ownership, however, the best choice is to have Chevron as owner/operator. Less attractive, next best option

would be for a third-party contract operation utilizing a *standard industry operating agreement*.

Fourth, we see no justification or logical rationale for corporatization and therefore cannot support it as either a partner or taxpayer.

Finally, Congress should move quickly with a solution. We are committed to work with DOE and Congress to explore any alternative that quickly brings Elk Hills into line with standards of commercial excellence.

Thank you for the opportunity to share Chevron's perspective on maximizing the asset value of Naval Petroleum Reserve No. 1 at Elk Hills for the U.S. Government, taxpayers and Chevron stockholders. I would be pleased to answer any questions you may have at this time.

Mr. BATEMAN. Thank you very much. This hearing is going to be very helpful in moving the Congress in that direction. Certainly my sense of this is that this committee will be formulating legislation, formulating a position in this session of the Congress, and we certainly look upon the testimony we are hearing today as being very helpful to us in trying to make the wiser investment decision.

Mr. Seidman, we would be pleased to hear from you now.

**STATEMENT OF HAROLD SEIDMAN, SENIOR FELLOW,
NATIONAL ACADEMY OF PUBLIC ADMINISTRATION**

Mr. SEIDMAN. Mr. Chairman, I am accompanied by Alan Dean.

Mr. BATEMAN. Yes. We are glad to have Mr. Dean with us.

Mr. SEIDMAN. Mr. Dean is also a senior fellow of the National Academy of Public Administration. We were codirectors of a National Academy of Public Administration study of the management alternatives, including corporatization, for the petroleum and oil shale reserves conducted pursuant to a directive by the Senate Armed Services Committee. We were not asked to conclude the option of sale or leasing of the reserves. We were asked for how you would best organize to operate the reserves, assuming they would still operate as a government activity.

A copy of our report has been furnished to the committee, and an executive summary has been attached to my written statement.

I would request that my full statement be included in the record.

Mr. BATEMAN. Certainly, yes.

Mr. SEIDMAN. I might say in response to the interesting testimony from Chevron, I don't think there is a very simple solution to this problem. I think sale is a little more complex than one might think, but the structure, status, and management systems for an organization should be adapted to its mission. Naval Petroleum and Oil Shale Reserves [NPOSr] provides a case study of the consequences of making a fundamental change in an organization's mission without making the changes necessary to enable the organization to perform its new tasks effectively.

The NPOSr Program has never been given the operating and financial flexibility required for the effective performance of what is now a commercial enterprise. They remain subject to all of the laws and regulations intended for agencies engaged in noncommercial activity. The adverse consequences of this situation have been documented in studies by an independent industry panel and by the General Accounting Office. The failure to adopt management and financial practices suitable for a government enterprise has resulted in higher costs and lost revenues to the Treasury.

I think Mr. Thomas eloquently described some of the problems.

In evaluating organizational alternatives for NPOSr, we were guided by the findings and recommendations by the independent panel and endorsed by the Senate Armed Services Committee. They include: Maximizing the value of the reserves as an asset and increasing net revenues to the U.S. Treasury; reducing the net cost of operating nine reserves; and adapting structure and operations to the change in mission by eliminating nonvalue-added Federal burdens and inappropriate government regulations which constitute obstacles to businesslike management. It has been esti-

mated that complying with these regulations will cost over \$35 million over the next 3 years.

We believe that these objectives can best be achieved by establishing a wholly owned Government corporation subject to the provisions of the Government Corporation Control Act. When Congress enacted the Government Corporation Control Act, it recognized that budgetary and other control systems designed for traditional agencies were unsuitable for revenue-producing, self-sustaining government enterprises subject to market discipline. No business could operate successfully if its level of activity was determined by the amount of money appropriated in advance by the Congress. I think this has been cited here today in testimony given before this committee. Nor could a business be successful if its outlays were arbitrarily limited without regard for the effect the limitation would have on its revenues.

The act provides systems of budgeting, accounting, and auditing which are designed to strengthen accountability while taking into account the unique financial and operating requirements of government enterprises. The committee, when enacting the Control Act, expressed that financial control does not necessarily mean the imposition of limitations beyond those already provided as a part of statutory authority, and should not deprive a corporation of the flexibility essential for the most effective conduct of business-type activities.

We believe that the establishment of a wholly owned government corporation would bring it under those laws and regulations which Congress has determined are most suitable for a government enterprise. The corporation should be exempted from administratively imposed limitations on the number of employees, and vested with the powers normally given to a government corporation.

A board of directors was once considered to be the hallmark of a government corporation, since State incorporation laws require boards of directors be elected by shareholders. A wholly owned government corporation has no shareholders, and a board of directors is not required to represent the interests of diverse owners. Policy-making and oversight roles would be performed by the Secretary of Energy and the Congress.

Experience has demonstrated that boards of directors are not effective managers of complex operations, promote buckpassing, and make it more difficult for the Secretary and the Congress to hold anyone accountable for results. We have concluded that vesting management of the NPOSR corporation in a single Administrator, appointed by the President by and with the advice and consent of the Senate for a 6-year term, would be best calculated to clarify lines of authority and responsibility and provide unity and continuity of leadership.

We have no doubt that reorganization of the NPOSR as a wholly owned government corporation will maximize the value of the reserves as a government asset and make possible more effective accountability to the Congress. If the Congress determines that privatization would be the ultimate objective, corporatization would enable potential purchasers and the U.S. Government to better determine the fair value of the assets.

I might comment on two things that Mr. Thomas had said. First, I think we would propose, if such a corporation is created, that it would have a limited succession; in other words, what is normal in a government corporation, that it would have a 5-year life. In other words, it would not continue in perpetuity without being reexamined by Congress.

Second, there seems to be the assumption that you can dispose of and sell a government corporation by selling capital stock. You cannot do that. You sell the assets. If you sold the capital stock of a government corporation, you would end up with private people owning a government agency. I need also to remind the committee that there is no Federal Government corporation law, so there would not be the normal law you would find in the State applicable to a corporation.

Much has been said on the problems of disposal. I would like Mr. Dean, my colleague, to speak to this because he had direct experience in disposing of Conrail, and I think some of the problems that were encountered in disposing of a major railroad have some relevance to the problems that might be encountered in disposing of the oil shale reserves.



National Academy of Public Administration



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**STATEMENT OF HAROLD SEIDMAN, SENIOR FELLOW
NATIONAL ACADEMY OF PUBLIC ADMINISTRATION**

**BEFORE THE
SUBCOMMITTEE ON MILITARY READINESS
COMMITTEE ON NATIONAL SECURITY
U.S. HOUSE OF REPRESENTATIVES**

**ON
THE NAVAL PETROLEUM AND OIL SHALE RESERVES**

MARCH 22, 1995

Mr. Chairman and members of the Subcommittee:

My name is Harold Seidman. I am a Senior Fellow of the National Academy of Public Administration, and the Center for the Study of American Government, John Hopkins University. I am accompanied by Alan L. Dean, who is also a Senior Fellow of the National Academy of Public Administration. We were co-directors of a National Academy of Public Administration study of management alternatives, including corporatization, for the Petroleum and Oil Shale Reserves conducted pursuant to a directive by the Senate Armed Services Committee. A copy of our report has been furnished to the Committee, and the Executive Summary has been attached to my written statement.

The National Academy of Public Administration is a non-partisan organization founded in 1967 to advance the effectiveness of public management through advice and counsel to all levels of government. In 1984, the Academy was chartered by the Congress, the first such charter granted since that of the National Academy of Sciences in 1863. Our testimony today reflects our individual views and does not necessarily reflect the views of the National Academy of Public Administration as an institution.

The structure, status and management systems of an organization should be adapted to its mission. The Naval Petroleum and Oil Shale Reserves (NPOSr) provide a case study of the consequences of making a fundamental change in an organization's mission without making changes necessary to enable the organization to perform its new tasks effectively.

Until 1976, the NPOSr mission was to conserve, under ground and under government control, an assured source of petroleum for the Navy. The 1976 Naval Petroleum Reserve Production Act changed NPOSr from a conservation agency to a major

producer and marketer of petroleum and natural gas. Since 1976 NPOSR has earned over \$16 billion in revenues which have been paid into the U.S. Treasury. Yet the NPOSR program has not been granted the operating and financial flexibility required for the effective performance of a commercial enterprise and remains subject to all of the laws and regulations intended for agencies engaged in non-commercial activities. The adverse consequences of this situation have been documented by studies by an Independent Industry Panel and the General Accounting Office. The failure to adopt management and financial practices suitable for a government enterprise has resulted in higher costs and lost revenues to the Treasury.

In evaluating organizational alternatives for NOSPR, we were guided by the findings and recommendations by the Independent Industry Panel and endorsed by the Senate Armed Services Committee. They include:

- maximizing the value of the reserves as an asset and increasing net revenues to the U.S. Treasury;
- reducing the net cost of operating the reserves; and
- adapting structure and operations to the change in mission by eliminating non-value added Federal burdens and inappropriate government regulations which constitute obstacles to business-like management.

We believe that these objectives can best be achieved by establishing a wholly owned corporation subject to the provisions of the Government Corporation Control Act (Chapter 91 of title 31, USC). When the Congress enacted the Government Corporation Control Act, it

recognized that budgetary and other control systems designed for traditional agencies were unsuitable for revenue producing, self-sustaining government enterprises subject to market discipline. No business could operate successfully if its level of activity was determined by the amount of money appropriated in advance by Congress. Nor could a business be successful if its outlays were arbitrarily limited without regard for the effect the limitation would have on its revenues.

The Act provides systems of budgeting, accounting and auditing which are designed to strengthen accountability while taking into account the unique financial and operating requirements of government enterprises. It was stressed that "financial control does not necessarily mean the imposition of limitations beyond those already provided as a part of statutory authority" and should not deprive a corporation of the flexibility essential for the most effective conduct of business-type activities.

The NPOSR without question meets the criteria for the use of government corporations established by President Harry Truman in his 1948 budget message in that it is revenue producing, self-sustaining and involves a large number of business-type transactions with the public.

We believe that establishment of the NPOSR as a wholly owned government corporation would bring it under those laws and regulations which the Congress has determined are most suitable for a government enterprise. The NPOSR corporation should be exempted from administratively imposed limitations on the number of its employees and vested with the powers normally given a government corporation. In exercising its powers, the corporation should be subject to policy direction by the Secretary of Energy. We

recommend that general Department of Energy regulations not apply to the corporation unless the Secretary makes a finding and specifically so directs.

A board of directors was once considered to be the hallmark of a government corporation, since state incorporation laws require boards of directors elected by the shareholders. A wholly owned government corporation has no shareholders, and a board of directors is not required to represent the interests of diverse owners. Policy making and oversight roles would be performed by the Secretary of Energy and the Congress.

Experience has demonstrated that boards of directors are not effective managers of complex operations, promote buck-passing, and make it more difficult for the Secretary and the Congress to hold anyone accountable for results. For this reason, the Congress abolished the boards of directors of the Resolution Trust Corporation and the Reconstruction Finance Corporation, and vested management of the Government National Mortgage Association, and the Saint Lawrence Seaway Development Corporation in single administrators. We have concluded that vesting management of the NPOSr corporation in a single administrator, appointed by the President, by and with the advice and consent of the Senate, for a six year term, would be best calculated to clarify lines of authority and responsibility and provide unity and continuity of leadership.

We have no doubt that reorganization of the NPOSr as a wholly owned government corporation will maximize the value of the Reserves as a government asset and make possible more effective accountability to the Congress. If the Congress should determine that privatization should be the ultimate objective, corporatization would enable potential purchasers and the U.S. government better to determine the fair value of the assets.

National Academy of Public Administration

**RESTRUCTURING THE NAVAL PETROLEUM
AND OIL SHALE RESERVES**

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EXECUTIVE SUMMARY

The structure, status, and management systems of an organization should flow from its mission. From time to time, a government entity undergoes a major change in the content or objectives of its program, but its organization and management systems are not adjusted to cope with this change. The Naval Petroleum and Oil Shale Reserves (NPOSr) provide an example of the failure to make needed changes in organization and management systems in response to a radical redirection of purpose and program.

When the first Naval Petroleum Reserves (NPRs) were established in 1912, their purpose was to conserve, under government control, an assured source of oil in the ground for the U.S. Navy. In response to the OPEC oil embargo, Congress established a new policy of large scale production and marketing of petroleum and gas in 1976. Since then, however, there have been few organizational changes in response to this fundamental change in mission.

Both the executive branch and Congress have become increasingly concerned about the status and management of the reserves organization. In July 1993, the Senate Armed Services Committee report on the 1994 National Defense Authorization Act directed the secretary of energy to study management alternatives for the reserves, including the concept of corporatization. The committee suggested the secretary utilize the National Academy of Public Administration (NAPA) to conduct a study of alternative structures for the NPOSr. The NPOSr subsequently contracted with NAPA for the study, and the Academy appointed a project study team and an advisory panel to perform the work.

HISTORY AND EVOLUTION

The Naval Petroleum Reserves date back to the early years of the 20th century. During this period, the U.S. Navy began a changeover from coal to oil-powered ships. To meet the need for a secure source of oil, President William Howard Taft established Naval Petroleum Reserve No. 1 at Elk Hills, California on September 2, 1912. Over the next few years, additional oil and shale reserves were brought into the program.

The NPOSr properties now consist of:

- NPR-1, Elk Hills which covers 47,409 acres in Kern County, California. It is one of the ten largest domestic producing oil fields in the lower 48 states. The reserve is also one of the nation's top producing gas fields. Total revenues for fiscal year 1993 were \$382.1 million.
- NPR-2, Buena Vista Hills, California which covers 30,181 acres. This field has been producing continuously since the early 1920s. All NPR-2 development and production is performed by lessees, with the government receiving a royalty from production (\$2.6 million in fiscal year 1993).

- NPR-3, 35 miles north of Casper, Wyoming, which is composed of 9,481 acres. Fiscal year 1993 revenues totaled \$14.2 million.
- Naval Oil Shale Reserves (NOSR) No. 1 and 3 which are adjacent oil shale reserves located eight miles west of Rifle, Colorado. They are 40,760 and 14,130 acres, respectively. NOSR-1 is estimated to have over 18 billion barrels of shale oil in place with approximately 2.5 billion barrels of oil recoverable from shale. NOSR-3 has no commercial oil shale, but was set aside to gain closer access to the Colorado River and serve as working space to support NOSR-1 activities.
- NOSR-2 which covers 90,400 acres located in Carbo and Uintah Counties, Utah. The reserve is estimated to have almost four billion barrels of shale oil in place.

Because of its high level of oil and gas production, NPR-1 has been the focus of questions being raised about the reserves' organization and management in the wake of the federal government's involvement in the oil and gas business. Ownership of the oil and gas resources at NPR-1 is split between the federal government (78 percent) and Chevron Oil (22 percent). From the time of its inception to World War II, the mission of NPR-1 was to keep the oil reserve in the ground — the so-called "shut-in" status.

History Of Naval Petroleum Reserve No. 1

The NAPA study team focused primarily on the organization and management issues raised by NPR-1, due to its high level of oil and gas production and the predominance of government ownership in the Elk Hills field. Comparable issues also exist regarding oil shale and the other reserve fields.

While the land for NPR-1 was withdrawn from other public domain in 1910, it was not until June 1920 that the Naval Appropriations Act placed the NPRs under the authority of the Navy. The act also authorized the secretary of the Navy to conserve, develop, use, and operate the reserves at his discretion for the benefit of the U.S. Navy. President Warren G. Harding transferred administration of the reserves to the Department of the Interior in 1921. However, as the result of the Teapot Dome and other related oil scandals, jurisdiction was returned to the Navy in 1927.

Between 1927 and 1942, the reserves were not developed further, except for some offset protective drilling. Protection of the government's oil was complicated by the fact that the land within the reserve was owned by a private oil company and distributed in a "checkerboard" pattern. Under pressure to meet the need for oil during World War II, the government "unitized" production in 1942 and executed a Unit Plan Contract in 1944. This is a common form of operation in the oil industry. The Unit Plan Contract now in effect enables participants to develop a field on a reservoir basis rather than a parcel-by-parcel operation.

Shortly after the Unit Plan Contract was signed, Congress authorized NPR-1 to produce at a level of 65,000 barrels per day. After the war, production was decreased to 3,000 barrels per day to minimize damage to the field and prevent permanent loss of oil. This was the "shut-in" phase.

In response to the OPEC oil embargo, Congress changed the statutory mission of the reserves from conservation to production in 1976. On the "open-up" date of July 3, 1976, the Navy began full production at NPR-1 and 3. The Department of Energy Organization Act transferred jurisdiction of the NPRs to the Department of Energy (DOE), effective October 1, 1977.

The mission of the NPRs has changed to one of extracting oil at the maximum efficient rate in order to increase domestic production and to bring funds into the U.S. Treasury. The 1976 legislation specified that the President must study the question of continued production. Since 1976, studies undertaken by the executive branch have called for continued production.

The NPRs have evolved into a commercial oil and gas operation managed under government-wide and Department of Energy controls. Despite the complete change in their mission, the organizational structure of the reserves has seen little change.

PROPOSALS TO SELL OR LEASE THE PETROLEUM RESERVES

The change of the petroleum reserves from a "shut-in" mission to one of maximum production for sale has raised questions about the extent of the government's role in what is normally a highly competitive part of the private sector. The Reagan administration concluded that oil and gas production should be done by the private sector. The fiscal year 1987 budget proposed the sale of NPR-1 and 3.

On receipt of President Reagan's sale proposal, members of Congress expressed doubts about the government's ability to get a fair price for the other reserves. On June 30, 1989, Congress prohibited contracting outside of the DOE for activities related to the sale, lease, or other disposition of the reserves.

The Bush administration abandoned the divestiture approach and budget proposals for fiscal years 1991 through 1993 advocated the leasing of NPR-1. However, no action was taken on the proposals.

CURRENT ORGANIZATION AND MANAGEMENT OF THE NPOSR

The secretary of energy's responsibilities for the Naval Petroleum and Oil Shale Reserves are delegated to the assistant secretary for fossil energy, who is also responsible for the direction of programs such as coal technology, the Strategic Petroleum Reserve, and the advancement of gas and petroleum technology. The deputy assistant secretary for Naval Petroleum and Oil Shale Reserves is responsible for programmatic and operational management of NPOSR. While the

program has not functioned as a reserve for Navy oil needs for many years, this post is still occupied by an active duty Navy officer.

Since the end of World War II, the government has not operated the Elk Hills field directly, but uses a management and operating contract (M&O) for most day-to-day work. As a result of this complex organization, three parties have staff at Elk Hills. In fiscal year 1993, the DOE staff was 60, Chevron (22 percent field owner) 24, and Bechtel Petroleum (the M&O contractor) 780.

Obstacles To Efficient And Effective Performance

Because the NPOSR activity is revenue producing and needs to function as a commercial enterprise, many departmental policies and requirements designed to serve elements dependent on annual appropriations have an adverse effect on the reserves' organization and revenues.

Analyses of NPOSR organization and manpower needs have cited numerous government and DOE requirements which consume staff time and divert management attention without contributing to the effective operation of the reserves. These requirements have been described as the "non-value added government burden." Wasteful effort stemming from such requirements extends not only to the NPR-1 government staff, but to the staff of Bechtel Petroleum as well.

Observers of the NPOSR program have also commented on its lack of flexibility in financial matters. They note that potentially self-sustaining, revenue producing agencies selling commercial products and conducting business-type transactions cannot be managed effectively under the procedures and restraints applied to programs dependent on annual appropriations.

The NPOSR is more than self-sustaining. In the fiscal year 1993, the expenses of the program totaled \$188 million while revenues from sales were \$402 million. But the NPOSR cannot use proceeds from sales to finance capital projects or operations, and each year it is required to deposit its revenues in the U.S. Treasury's Miscellaneous Receipts account.

The delay in the funding of a cogeneration facility at Elk Hills stands as an example of the consequences of the current budget procedure. Over a period of five years, the proposal was subjected to complex review by DOE and the Office of Management and Budget (OMB). When Congress finally provided funding, the delay had caused the loss of almost \$40 million in net revenues.

ORGANIZATIONAL ALTERNATIVES FOR THE NPOSR

The NAPA project study team identified and considered three basic organizational alternatives for managing the NPOSR.

1. By secretarial order, establish the NPOSR activity as a separate entity within the Department of Energy, comparable to the power marketing administrations, and delegate to its head the functions now vested in the secretary of energy.

2. By law, establish an agency within the Department of Energy comparable to the present Bonneville Power Administration with some, but not all, of the attributes of a government corporation -- including a revolving fund and borrowing authority.
3. By law, establish a wholly owned government corporation subject to the provisions of the Government Corporation Control Act.

RECOMMENDATIONS

The NAPA project study team recommends that:

1. The Naval Petroleum and Oil Shale Reserves be organized as a wholly owned government corporation and vested by law with the powers of such a corporation (see p. 31).
2. The NPOSR Corporation be managed by a single administrator reporting only to the secretary of energy. This administrator should be appointed by the President, with Senate confirmation, to a six-year term (see p. 31).

**STATEMENT OF ALAN L. DEAN, SENIOR FELLOW, NATIONAL
ACADEMY OF PUBLIC ADMINISTRATION**

Mr. DEAN. Mr. Chairman, we, in the National Academy of Public Administration, are members of a nonprofit group chartered by Congress. We are not under the discipline of the Office of Management and Budget and can speak with complete candor.

Mr. BATEMAN. You are lucky.

Mr. DEAN. The point I would like to raise, which supports Assistant Secretary Godley, is that the fiscal year 1997 target date for the termination of the corporation and the completion of sale is absolutely impossible.

The process involved in creating the new corporation is not very complicated—and by the way, nor would it cost very much money—but for it to demonstrate what it really means to have a commercial-type operation, to begin to really enhance the value of Elk Hills, we are talking about a period of 3 to 5 years.

Therefore, the question before the committee and the Congress is, do you continue the present wasteful, unworkable management structure; or do you, in anticipation of 3 to 5 years more of Government ownership, put in place a Government mechanism that can act like a private corporation in most respects?

The only other option is the one that Assistant Secretary Godley mentioned, put it on the stump and run and take any price that anyone or any consortium is willing to pay.

When we organized Conrail, as vice president of the U.S. Railway Association, it was always intended to be private. It was organized to be private. It took 10 years to place it in the hands of stockholders with everybody in agreement. It was necessary to establish the commercial track record of a new railroad before anybody would offer a firm price. When Shearson-Lehman made a study on privatization during the Reagan administration, they said that first you have to have a workable commercial plan.

So, I urge the Congress and this committee to set in motion the kind of mechanism described by Harold Seidman, one which will permit the Congress and the administration to know what this asset is really worth. In the meantime, maximize benefits from it, protect the asset, and develop it as if you were running a real private oilfield.

That is all I have to say on this, Mr. Chairman.

Mr. BATEMAN. Well, thank you very much, Mr. Dean.

There seems to be no doubt in the minds of the witnesses present at the table that you can't set up this government corporation and move to the point of being able to make a sale as early as 1997.

Does anyone feel that that can be achieved realistically?

Mr. MATIUK. I don't believe it could be achieved. It would be very, very difficult.

Mr. BATEMAN. Assuming that you move to set up the special government-owned corporation with all of the normal incidences of a private business operation, don't you have to lay to rest this business of determining the equitable share between the joint owners, that is, Chevron and the United States?

Mr. SEIDMAN. I would think it would greatly simplify this. It would certainly make the working relationships between Chevron

and the government corporation much better than exist today, because they would be operating on much more comparable systems.

The problem that occurs now is that the contractor, Bechtel, is also being compelled to apply all these nonvalue-added Government regulations so the contractor also has to assume added costs as a result of the application of these inappropriate Government regulations.

Mr. REZENDES. I would also add, if I could, that it is not just a matter of future revenues that we are talking about with the sale—in terms of defining what the equity shares are—but rather because it is not finalized now, those costs can be going back to 1942. So there is potential cost. Whoever is going to buy it, there is a great degree of uncertainty and it is not just a matter of future revenues.

Mr. BATEMAN. So the equity shares not having been fully worked out and agreed to affect not only future operating incomes, but also what parties were entitled to, the proceeds of the operation in the past?

Mr. MATIUK. Yes; the equity could have a major impact on the process of sale. I think it is important to note that there is really no disagreement between the owners over the fact that we need to eliminate the MER provision, that we need to finalize equities and we are moving in that direction, and that we need to adopt a nonconsent clause. But, Mr. Chairman, those, in themselves, will not create a commercial operation.

Mr. BATEMAN. I am intrigued at the role of Chevron. This is a company that has a very vast, worldwide experience in the discovery and exploitation of petroleum resources. It is a coowner. You are sort of, in one form or another, in a partnership with the U.S. Government as the other owner. The U.S. Government has apparently determined that it should be the managing partner, which it now appears was a rather bad decision. It might be much better if they had made Chevron—as a coowner, as a partner—the managing partner.

Is it off the mark to speak in terms of a possible general partnership, an agreement of which Chevron is made the managing partner, freeing the operation of all of these Government constraints?

Mr. MATIUK. That is an interesting thought, and it would require an amendment to the unit plan contract. That is certainly possible, but the proposal we put forth in May 1993 built on the partnership aspect. It is important to realize that throughout the world, and certainly in the United States, there is not a major field anywhere that I can think of where one of the owners is not also the operator.

There is no conflict of interest. In fact, that is the way industry prefers to operate because it is the owner that brings the incentive to do the best job possible, and it is for precisely that reason that we have offered to operate the reserve at cost. The opportunities are so great that we will forgo any management fee. That is standard industry practice.

Mr. SEIDMAN. Mr. Chairman, if I might comment on that.

Mr. BATEMAN. Excuse me for just 1 second. We have another vote on the floor, and only 10 minutes left to get over there and vote. If the panel can indulge us, we would like to suspend the

hearing just long enough for us to go and vote and come right back because I am sure there will be other questions.

[Recess.]

Mr. BATEMAN. The committee will again come to order, please. If this were a known oil producing area where all of the ownership interests were private interests, would not the unit plan contract be something that has a set of ground rules that would govern and dictate how those issues were finalized?

Mr. MATIUK. That is correct. Most standard joint operating agreements in units such as this very clearly stipulate how many times equity is redetermined up to a final determination. Within the plan as we have it with DOE now, there is technically no final determination; we just have to agree that there is.

Mr. BATEMAN. But there is nothing unique in what has to be done?

Mr. MATIUK. No; equity determination happens in every field every day. It is standard industry practice. The negotiations are sometimes very rigorous, but they are always resolved.

Mr. BATEMAN. Is that not something that has to be resolved, as a practical matter, before you could undertake to sell the resource?

Mr. MATIUK. In my opinion, yes, they do, and I think we are moving in the direction of trying to resolve those equity issues within about 12 months.

Mr. BATEMAN. The bulk of the testimony has related to the Elk Hills No. 1 track which everyone seems to agree, proper constraints and arrangements having been made, should be sold. Elk Hills No. 2, the track in Idaho, the recommendation apparently is that that not be sold but transferred to the Department of Interior.

Have you all been asked to look at that aspect of this?

Mr. SEIDMAN. We have not.

Mr. MATIUK. Chevron has no interest in that reserve.

Mr. BATEMAN. Then the only track or portion that is under consideration for sale is the Elk Hills No. 1, the most productive of the fields; is that correct?

Mr. MATIUK. Yes, that is my understanding; and if I might pick up on a previous comment, that oil companies buy and sell fields every day. Again, it is common practice; in a \$1 to \$2 billion sale, you start looking at mergers of companies. It is not large. It is certainly sizable, but it is not unique and the process really is very simple.

We are not talking about selling a Conrail. We are talking about selling a producing oilfield. There are very clear procedures to be followed, and it can be done very simply. It does not need to be made very complicated.

Mr. BATEMAN. Well, one of the things that intrigues me is that the U.S. Government has ownership of subsurface or beneath-the-ocean resources and from time to time has auctioned those properties for purposes of oil and gas exploration. People determine how much they want to pay and submit their bids, and transactions have taken place dozens and dozens of times through the years. And, I assume that is based upon the fact that someone is willing to put their money against their guess as to the likelihood of finding the resource.

It seems to me that if an industry is able to put millions of dollars at risk on something where there are that many unknowns, why would it be so difficult to ascertain the value of a producing field where you know so much more about the reserves?

Mr. MATIUK. It is much easier to determine the value of a producing reserve. There are literally hundreds of thousands of data points that can be used to calculate that, but there is still judgment involved, and this is a high-risk business.

But the process is fairly simple. A seller sets up a full disclosure data room, prospective buyers look at the data, make a judgment on what it is worth, how much return on their investment they are willing to make, and they bid. The seller, in turn, normally establishes a baseline price, a minimum price that it is willing to accept. I would recommend that the Government bring in some independent consultants to make that evaluation for them; in fact, get several evaluations so you have a level of confidence, what the reserve is worth.

But the process need not drag out much more than 9 months to 1 year. It is not a lengthy process.

Mr. REZENDES. I would like to add something to that. I tend to agree, but I don't think that is really the problem here. It isn't that we can't identify what reserves are left and what the net present value of those revenues are going to be. I think the real issue here is that we find it difficult to sell it. We have a cash stream that is already coming into the Federal Treasury, and we look at how budget scoring and various other things work.

There is the concern on the Federal Government's part, are we going to get our fair value for this and how do things score in terms of the budget process? That seems to be a larger impediment than whether we can define what is left and can we get a fair market value?

Mr. MATIUK. I would agree with that. The fundamental question is, does the U.S. Government want to be in the business of producing oil?

Mr. BATEMAN. I think it is fairly clear to me that the consensus of this committee is going to be that we need to, and ought to, get out of this business. The concern that other Members of the committee and I share is, in the main, we shouldn't be disposing of something that has paid substantial moneys into the Federal Treasury unless we are going to get what it is realistically worth. My concern is, how do we go about this in order to assure that we do, indeed, get the full value of the asset? And, notwithstanding what I have heard and am persuaded has been the history of this operation—in a very ineffective way because of the governmental involvement primarily, but that is pretty much a known factor—aren't there people in industry or in the consulting business who can look at the operation and look at the data and arrive at what its probable or most realistically expected value would be, assuming the Government is out and somebody else, totally private, is going to buy it and operate it as they see fit?

Mr. MATIUK. Yes, they can. And what a prospective buyer will look at is what the estimate of reserves are in the ground, what it thinks it can operate that asset for, and what kind of upside potential in terms of adding reserves or increasing production, which

would increase short-term cash flow and long-term growth. That is all part of the process which is handled on a regular basis.

Mr. REZENDES. I would also add that nothing is going to do that for you quicker than the competitive bidding process.

Mr. SEIDMAN. Let me add on this, I think there is an assumption that the Congress is going to give some agency the authority to go out, make a deal, and sell it. In every previous case where we are making major disposition of assets, whether it was synthetic rubber plants or Conrail, the Congress insisted that it have the last word.

It will require legislation, and it will require them to come back to the Congress. I cannot really conceive that the Congress would give some executive agency the authority to just go out and make a deal without going back to the Congress.

Mr. DEAN. Mr. Chairman, in addition to assuring the industry that the Congress does have to be assured that a fair price is being sought; I want to call the attention of the committee to a report that I am sure you have seen by the independent industry board, which is chaired by oil executives and with real experts in this business. They made a very thorough examination on how to improve the operation at Elk Hills, and one of the conclusions that they came to was that a new management structure; namely, a government corporation, ought to be established.

And again, I would like to repeat what we have tried to say. If the Congress wants assurance, it needs to see what happens when Elk Hills is run more like a commercial operation rather than under the rigid restraints, budgetary delays and so on, personnel systems, that now characterize the operation of this program.

Mr. MATIUK. And Chevron would suggest that we can accomplish all of that, and we won't charge you anything.

Mr. BATEMAN. Mr. Sisisky.

Mr. SISISKY. Is there such a thing as royalty in the oil business?

Mr. MATIUK. Absolutely. That is very common. For instance, when you put offshore leases up for sale they attract the royalty.

Mr. SISISKY. Is there a way to negotiate a contract with the Government and Chevron where both sides will be protected? I mean, it gives them the opportunity to really run it like a business and get the maximum out. If we could work a contract out, the Government could get the maximum through royalties.

Does that make any sense?

Mr. MATIUK. That is an option, and some people would call that the lease option, where you lease the field but retain a royalty. By retaining a royalty, what you are doing is burdening the operator with the cost of paying that royalty and so, as a consequence, the up-front payment of the lease will be reduced, some comparable net present-value amount. But, yes, it is definitely possible.

Mr. SISISKY. Is there such a thing as a buy-sell arrangement? In other words, is there such a thing as a buy-sell that you would make an offer to the Government—if we finalize the equity—to buy it and the Government doesn't want to, they would buy you out at that price. It keeps everybody honest and it is fast; you will have to agree with that.

Nobody should know more about that than Chevron. It is fast but if I was a member of the board of directors, it would be a fair thing.

And, I am a member of the Board of Directors of Congress, and I am just thinking out loud. We do it in business. I have done it before. The Department that lost didn't like it.

Mr. MATIUK. I will be very frank. The downside of corporatization, if it is not done correctly, might just diminish our value to the point where we want to sell it.

Mr. REZENDES. I would add that the other downside would be that you could own all of it, and we could run it less efficiently.

Mr. SISISKY. That may not be the worst thing. Well, let me get back to finalizing the equity.

Do you receive a percentage of the revenue that comes in?

Mr. MATIUK. Yes, we do. On a weighted average, we receive about 22 percent of all the production in the field.

Mr. SISISKY. And a percent of that 22 percent over the years?

Mr. MATIUK. Yes.

Mr. SISISKY. Under protest or——

Mr. MATIUK. No.

Mr. SISISKY. Doesn't that set your equity, the ownership?

Mr. MATIUK. What sets the equity is a volume measure calculation and a productive capacity calculation of how much oil is under each of our leases. We own a checkerboard pattern within the field. What we do is calculate the volume metrics below our parcels and then aggregate them and share production accordingly.

There are three reservoirs that we talk about within Elk Hills, and each has its own equity.

Mr. SISISKY. Mr. Rezendes, should it be sold now or should it be corporatized? What is your opinion?

Mr. REZENDES. I really don't have a strong feeling one way or the other. All I know is, it can be operated more profitably than what it is now. I think a government corporation could get you closer to eliminating some of the inefficiencies and layers of management, and allow the management team there to respond to market conditions better than we are today. We have seen some of that with the Uranium Enrichment Corp., where they have taken a Federal function and are doing it more profitably than the Federal Government ever did.

Whether you sell it is really a notion of whether you want to be in the business or not.

Again, I want to tie this back to the comment I made earlier. We are accustomed to the revenue streams already in the Federal Treasury. The real question we have to ask ourselves and you need to ask yourself is, if you were not in this business today, would you get in the business today? If the answer is no, then the next series of questions you are asking yourself is, how best do you get out; or if you can't get out, what do you do in the interim to make this the most profitable for the Federal Government?

Mr. BATEMAN. I am not sure it is entirely that clear-cut, clear-cut in the context of if we weren't in this business I certainly wouldn't support putting us into this business but because of the peculiar history of this as a Naval Petroleum Reserve, we got in it. Now we are in it, and it has been profitable. The only complaint is, it hasn't been as profitable as it should have been. And so, maybe there is a case to be made for staying in the business if

somebody else is put in charge of the business so as to maximize the profitability.

Mr. REZENDES. That is very fair, and if you set up a government corporation and do that you should structure it so it mimics a commercial operation as much as possible.

Mr. BATEMAN. Do we have to set up a government corporation to get to that point?

Mr. MATIUK. No, you don't. You can establish Chevron as operator, as we did—as we operated it for 31 years; and to the extent that the Department of Energy is not comfortable with waiving their own self-imposed orders, Congress can encourage them to do so.

Mr. SISISKY. That was going to be my question. Why did they terminate the operating contract in 1975?

Mr. MATIUK. It was done just at the time of the open-up legislation. We had operated under a care and maintenance mode when the field really was considered a reserve for the U.S. Navy. At the time that the field was opened up, there was a requirement to add 300 or 400 people and, at the same time, we had many other opportunities for the United States. We were in U.S. oilfields, and we were not in the position to handle all of them, so we opted out of that contract and requested that the Government tender it. At that point, it was tendered, and Williams Bros. was the successful bidder and operated for 10 years.

Mr. DEAN. Mr. Chairman, I should say that the history of this development raises a factor that there was worry in some circles that there would be a conflict of interest of a part owner also running the entire field. That is simply in the recorded history of the production act, and I can't testify further as to the truth.

Mr. SISISKY. You know, that conflict of interest—

Mr. BATEMAN. Wait a minute. Mr. Seidman has a comment.

Mr. SEIDMAN. Yes; I want to because the assumption here is that the present system, laws and regulations, would not apply to a contractor. Many of them do unless you change the system. If Chevron took it over as a contractor, they would still have to operate it under the same kinds of rules and regulations that Bechtel still has to operate with, which are applied to the operation of Elk Hills as if it were a government entity.

To go back to the government corporation, we are not talking about something novel. This is something the Congress decided when it enacted the Government Corporation Control Act in 1945 and said that we have now, in Government, a number of activities which are revenue producing and intend to be self-sustaining, that operate as businesses. They cannot operate successfully under the laws and regulations which we apply to other types of Government activity.

And so, what is being proposed here is to bring the system at Elk Hills, which is clearly a commercial operation, under the laws and system that Congress has said ought to apply to that type of activity. There is nothing novel or unusual about it.

Mr. BATEMAN. Give us some examples of where this has been successfully done.

Mr. SEIDMAN. For example, it was done successfully in the Panama Canal. It entirely changed the whole operation there. That

was run as a government agency when we created the Panama Canal Company.

It is done more recently in the case of the Uranium Enrichment Corporation; and, of course, TVA is one of the very old ones where it has operated successfully. The Saint Lawrence Seaway Development Corporation is another. We don't have that many operating corporations. Most of our Government corporations are either in insurance, lending, or like the Export-Import Bank.

But, certainly, in the Panama Canal Company it made all the difference in the world to operate as a business—to have to operate out of its toll revenues and other revenues rather than on an appropriated fund—and this is something—that the Congress, itself, clearly decided, that this is something that is kind of another type of Government organization. Not the impression that it is going to bring the new heaven on Earth, but it is going to be a lot more efficient than you have today. We are not saying this is the panacea and everything is going to be perfect from then on, because within Government you still operate with certain restraints. Nonetheless, it would be 100 percent better than what you have today.

Mr. MATIUK. Mr. Chairman, we believe that the DOE has the complete right within their own mandate to waive DOE orders, to waive the DOE acquisition requirements, to waive their own cost accounting standards, to waive their procurement flow-down clause imposed on the subcontractors, to waive their own property management requirements and to waive a vast array of other burdensome regulations that they place on themselves.

To the extent that they need other waivers which they are not comfortable with, if you corporatize you are going to need congressional approval at any rate. The other regulations that inhibit progress at Elk Hills can also be solved with congressional legislation. So, either way, you can solve the problem without going to corporatization.

Mr. DEAN. Mr. Chairman, could I address that, please?

Mr. BATEMAN. Sure.

Mr. DEAN. I served 4 years as an Assistant Secretary of the U.S. Department of Transportation. What is being suggested here is absolutely impossible, partly because things like the Federal Property Administrative Services Act are not under the control of the Department; many of the personnel statutes are governmentwide in their application. Furthermore, the bureaucratic structure of energy would never permit the devolution of as much authority as is being discussed here in 10 years. And if legislation is going to be needed, why not write a good corporation charter and solve all of the managerial problems in one swoop?

Mr. REZENDES. Could I comment on some of the notions that are being made? I agree with my NAPA colleagues that that would give you increased efficiencies with a government corporation, but you are not optimizing. They point to TVA, and there are some serious problems with TVA. You don't have any reality check in terms of management decisions. The market forces are not impacting on how they set rates or what kind of power they are buying or constructing. And it suboptimizes, it is not like an independent-owned utility.

The only other comment I want to clarify on the Chevron proposal of running the facility is that you do have a conflict of interest, unless you finalize the equity shares, because then you would have a minority owner that could operate the field to their advantage without equity being finalized. That has to happen first before we proceed. And I think a lot of the things that we are talking about still requires congressional action. The MER still requires congressional action. DOE believes that they need congressional guidance on not following the maximum efficiency rate for oil production.

Mr. BATEMAN. Mr. Matiuk, do you have a comment on the question of resolving the equity share as a precondition to turning it over to Chevron to operate?

Mr. MATIUK. Yes, as I have stated, we would very much like to see the equities finalized. We have already agreed on the finalization figures for what we call the shallow gas zone. We have exchanged the technical data and the Department of Energy is bringing a consultant on board to help us.

Mr. BATEMAN. Let me interrupt. I understand your point that you want it resolved, but there is a question posed. Could you turn to the kind of operation where you were put in charge without it having, in fact, been finally resolved?

Mr. MATIUK. Yes; you could because if you look back over the last 20 years of operation, equity has not played a significant role in making decisions. There are occasional debates but it has not materially impacted on the operation of the reserve.

Mr. BATEMAN. But it would have the potential to do so because you changed the operation.

Mr. MATIUK. Yes, in theory, it would but in practice it has not.

Mr. BATEMAN. The disconnect that is coming through to me is that I am hearing testimony that says it is a horrible inefficient Government-owned and driven operation and its operating history to date indicates that we ought to get the Government out of that business. But, to get the Government out of the business, you need to sell the asset and make sure we get its fair, full market value. To do that, you need to set up a government corporation. Well, if the Government is the problem, why do we have to have the Government set up a government corporation in order to solve the problem?

Mr. DEAN. Mr. Chairman, I've had a long career as a vice president of a Government corporation, the U.S. Railway Association, following years in the FAA and DOT, and let me assure you and the members of this committee, that it is the difference between night and day. I was able to set up personnel regulations and I was able to have procurement practices in place in a relatively short period of time which ran circles around the elaborate systems in place in the Government.

As Harold Seidman has pointed out, the Congress recognized that if you properly structure a government corporation you can give it much of the efficiency, effectiveness, and flexibility that is so-well praised in the private sector.

Mr. MATIUK. One final comment, if I might. Government corporation running Elk Hills cannot compete with the intellectual experience of a Chevron, a Shell, a Texaco, or an Exxon. We do this for

a living, and Government does not. Let business do what it does best.

Mr. BATEMAN. I am going to ask if you would be willing to respond to further questions if we send them to you and ask that you respond for the record.

[The following questions were submitted for the record:]

U.S. GENERAL ACCOUNTING OFFICE'SRESPONSE TO SUBCOMMITTEE ON MILITARY READINESS RE: ADDITIONAL
FOLLOW-UP QUESTIONS FROM 3/22/95 HEARING

- Q. **Mr. Rezendes, in your view, should the NPR be sold or corporatized?**
- A. The oil and gas business is a highly competitive industry. For this reason, if the government had not already been in this business now, we doubt that it would consider going into it today. However, whatever the government chooses to do with the reserves--sell them or form a government corporation to operate them--it should mirror standard industry practice to the extent possible to ensure that the maximum value is achieved for the U.S. taxpayers.
- If a decision is made to form a government corporation and then sell them later, care should be taken to establish a financially sound corporate entity with as few government restrictions on earning profits as possible. How much such a corporation could increase profitability and revenues to the Treasury would depend on how closely it mirrored a commercial enterprise's efficiency. We believe that the government's role should be to effectively oversee such a corporation to ensure that its shareholders--the U.S. taxpayers--obtain maximum return on their investment. If a decision is made to sell the reserves, it is important for the government to ensure that it receives fair market value for them. The government is more likely to receive fair market value if it establishes a minimum asking price for these reserves and if bidding for these assets is competitive.
- Q. **Mr. Rezendes, how much time do you think that DOE needs to run the corporation before attempting the sale of the Elk Hills field?**
- A. We believe that the Administration's proposal is unrealistic. In less than two years time, they have projected that they can get legislation written and passed in both houses, set up and operate a corporation to develop a "track record", and then sell the field on the basis of that record. We believe that once the legislation is passed, DOE will need at least 1-2 years to operate the field in a commercial fashion.
- Q. **Mr. Rezendes, how much time do you think it will realistically take to set up a government corporation to run the NPR?**
- A. That depends on how long it takes to develop and pass legislation. Once the legislation and government corporation charter are set up, it can be a matter of months before the corporation is operational.
- Q. **Mr. Rezendes, what do you think of allowing a government corporation, set up to manage and operate the NPR, to borrow from the Treasury?**

- A. We are not in favor of such a step. We believe that a corporation set up to run these reserves, which has a proven record of profitability, should mimic a commercial oil and gas operation to the extent possible and rely on borrowing from private markets. Allowing this corporation to borrow from the Treasury would give it an advantage over other oil and gas companies by allowing it to borrow at rates lower than its competitors. This advantage would not be due to superior financial performance but, instead, to government fiat.
- Q. **Mr. Rezendes, the GAO has made several recommendations on the operation of the NPR. If DOE implements all of your recommendations, is there a need for further management changes? What needs to be done to implement these recommendations? Why doesn't DOE do it now?**
- A. We believe that fundamental management changes must occur to ensure that the NPRs are operated in a way that maximizes profitability for the taxpayers. As we stated in our testimony, we see implementing our recommendations as a way to enhance profits in the short-term. To increase profits further will require more fundamental change--either by privatizing the reserves or operating the fields using commercial business practices.
- Several of our recommendations--such as eliminating the maximum efficient rate of production (MER) requirement and finalizing equity or ownership shares--cannot be accomplished without amending the Naval Petroleum Reserves Production Act of 1976. DOE cannot act unless the act is amended.
- Q. **Mr. Rezendes, several of GAO's recommendations, such as eliminating the maximum efficient rate of production (MER) requirement and finalizing equity or ownership shares, cannot be accomplished without amending the Naval Petroleum Reserves Production Act of 1976. Should DOE be given deadlines to implement your recommendations if the act is amended?**
- A. Yes. We believe that DOE should be given deadlines to implement our recommendations. Eliminating the MER could be done relatively quickly. Finalizing equity is also possible in the short-term because Elk Hills is a mature oil and gas field and a lot of information on the reservoirs already exists. We believe that one year is reasonable to complete this activity, once legislation is passed.
- Q. **Mr. Rezendes, you mentioned in your testimony that the Unit Plan Contract between the U.S. government and Chevron (at Elk Hills) would need to be modified to finalize equity and add a nonconsent clause. What else needs to be modified in the contract?**

- A. We believe that the contract should closely parallel standard industry practice for oil and gas operations. Our recommendations to finalize equity and add a nonconsent clause would require that the Unit Plan Contract be amended. In addition, one issue that may need to be visited is how the operating committee for the field is structured. Currently, although the government owns roughly 78 percent of the field and Chevron owns the remaining 22 percent, the votes for all management actions carry equal weight--50/50. Standard industry practice is usually to weight votes by the percentage owned by each owner.
- Q. **Mr. Rezendes, has DOE's management at Elk Hills cooperated with GAO regarding execution of GAO's oversight function?**
- A. It has been mixed. Some information is easily acquired. However, when we've sought other information, particularly financial information, cooperation has been poor, data hard to come by, and in some cases, incomplete.

**CHEVRON'S ANSWERS TO FOLLOW-UP QUESTIONS FROM THE
MARCH 22, 1995 HEARING ON THE NAVAL PETROLEUM RESERVES
BY THE HOUSE COMMITTEE ON NATIONAL SECURITY, SUBCOMMITTEE ON MILITARY READINESS**

- 1.0 The Administrations (sic) budget request for fiscal year 1996 proposes to place the NPR in a "caretaker" status in anticipation of creating a federal corporation in FY-1996 and then sell the NPR in FY-1997. This "caretaker" status lowers the budget for Elk Hills by \$85 million which will allow only minimum operations and maintenance of on-line wells and facilities.

Could this effect (sic) the production share you receive as the unit partner?

Could an extended delay in the workover of existing wells have in (sic) impact on the value of the field as a commercial operation or in ultimate oil recovery?

Will minimal activities in operations and maintenance programs increase the risk of operational accidents or environmental damages?

The proposed FY-1996 "caretaker status" budget is more than a 50% reduction from the FY-1995 budget for Elk Hills. This drastic budget reduction would cause lost production to both Chevron and the U. S. Government. The resulting reduction in revenues over the next four years would be approximately \$230-\$320 million.

Any extended delay in repairing existing wells can have a detrimental impact on the ultimate recovery of hydrocarbons from the underlying reservoirs.

Safety and environmental compliance should always have highest priority. However, DOE may decide that preventative programs such as pipeline corrosion monitoring and routine equipment maintenance need to be scaled back to minimize expenditures.

- 2.0 The DOE proposes to place Elk Hills in a "caretaker" status in anticipation of creating a government corporation and then sell or lease the reserve in fiscal year 1997.

Would changing the current operations from maximum efficient rates (MER) to a "caretaker" status improve the economic value of the fields?

Would the Unit Agreement between the U. S. Government and Chevron require revision if ownership of Elk Hills transferred to a government owned corporation?

The MER is a legal requirement of the statute and Unit Plan Contract which governs the management, operation and ownership of Elk Hills. The "caretaker" status budget would result in producing below MER and therefore exposing the Government to possible legal action. This budget also will significantly reduce short-

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term revenues (\$230-\$320 million over four years) and potentially, permanently damage wells or reservoirs if current production is not maintained.

The Unit Plan Contract would not necessarily need to be revised if the U. S. Government's share of ownership is transferred to a government-owned corporation.

- 3.0 Last year, as DOE was considering Chevron's un-solicited (sic) proposal to operate the Elk Hills reserve, several questions were raised about a possible conflict of interest and the need to consider competition for any change in the operations.

How did you answer these questions?

There is no conflict of interest. It is standard industry practice for one of the owners of a jointly-owned commercial oil and gas field to also operate the field. The Unit Plan Contract would continue to provide the Government the exclusive right to set the time and rate of production at Elk Hills. In addition, the operating agreement would have provided adequate checks and balances to ensure that all rights of the Government and taxpayers were fully protected.

- 4.0 If Congress does not approve the sale of the NPR, what are the options for the continued operation of the Elk Hills field? Would Chevron consider a proposal similar to your last proposal for the operation of Elk Hills? What would be the advantage of Chevron operating the entire field? Would Chevron be willing to compete for the operation of Elk Hills?

The field must be operated in a commercial manner similar to a standard industry jointly-owned field. Failure to move to a commercial approach at Elk Hills will cost the U. S. Government, the taxpayers and Chevron approximately \$1 million per week or about \$2 billion over the life of the field, and contribute to the premature abandonment of the field.

Chevron, as owner/operator, is the best way to operate Elk Hills to maximize financial benefit to the owners and taxpayers. Chevron would likely participate in a competitive bid, provided the contractual terms and conditions would result in a commercial operating agreement.

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- 5.0 With corporatization and then sale, what happens to the small-refiners that depend on Elk Hills for their products?

Terms and conditions in the legislative bill authorizing either sale or corporatization could easily include provisions to continue making production available for sale to the small-refiners at fair market price.

- 6.0 DOE and Chevron have never finally decided "who owns what" in terms of the oil and gas resources at Elk Hills or finalized the boundaries of the field. Commercial oil and gas operators have indicated that under these conditions, the NPR could fetch a lower price. Given this situation, is it realistic to sell the NPR at Elk Hills at this time? How long will it take to address this issue? Why has this "finalization" not taken place thus far? Do you support finalizing equity as recommended by the GAO?

The Unit Plan Contract between the U. S. government and Chevron does not allow for equities to be finalized until after the field is shut down. The Contract does require ongoing and retroactive equity re-determinations when new data suggests a need to update the equity shares. Elk Hills is a mature field and therefore could easily have its equity finalized between the owners. In fact, Chevron proposed a process for finalizing equity back in 1993. We continue to support finalizing equity and agree with GAO's recommendation to finalize equity.

Finalizing equities could be accomplished within six months after authorizing legislative language is approved. This could be part of the same legislation authorizing the sale of the Government's share of Elk Hills. To sell the Government's share of Elk Hills expeditiously and at maximum price will require the equities to be finalized.

- 7.0 Last year, Chevron presented an un-solicited (sic) proposal to DOE for the operation of Elk Hills. What happened to this proposal? If DOE objected to this proposal, what were the specific objections?

Chevron submitted its proposal in May of 1993, two years ago. In early 1994, after five months of meetings and negotiation between DOE and Chevron, we nearly completed a commercial operating agreement. However, in May 1994, the DOE called a halt to the negotiations and then, three months later in August, apparently decided to see if other companies would be interested in operating Elk Hills. To date, DOE has done nothing beyond soliciting and receiving letters of interest from

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nine companies that would be interested in competitively bidding for operatorship of Elk Hills. During the 24 months that DOE has had Chevron's proposal, it has not advised us that it objects to the proposal, or that it would accept our proposal.

- 8.0 If Congress decides to sell Elk Hills, from your perspective, what steps, if any, does the government need to take to prepare the field for sale?

It is a common occurrence today for oil fields to be sold in the U. S. The government should hire an independent petroleum engineer to provide an estimate of the fair market value of the Government's share of Elk Hills. To administer the sale the Government should hire an independent investment banker with experience in oil field sales. The entire process of obtaining the appraisal estimate, preparing the bid package, soliciting, negotiating and closing the sale should easily be done within 10 months after authorizing legislation.

- 9.0 Why don't you support corporatization given the higher net present value provided by that option according to the National Academy of Public Administration report?

The net present value cited in the NAPA report came from an economic analysis used in DOE's April, 1994 study entitled "Organizational Alternatives for the Naval Petroleum and Oil Shale Reserves." Both the NAPA report and the DOE study concluded that forming a Government corporation resulted in more favorable economic returns to the Government than any other option (i.e., commercial operation or leasing the Government's interest). However, this conclusion is based on an invalid economic analysis. The figures used for price and production forecasts for the corporatization case were much higher than the numbers used by DOE in forecasts for any other option. The oil price forecasts for the corporation case were, in some years, more than double the other options. These high forecasts not only generate the expectation of an unreasonably high financial return from a Government corporation, but also inflate and misrepresent the value of Elk Hills and create a false expectation of potential sale value.

Chevron does not support corporatization; even using accurate price forecasts, the final economic analysis is less favorable than what would be seen using a truly commercial approach. Moreover, the costs of establishing and maintaining a corporation could run several million dollars initially, and \$1 million thereafter on an annual basis. There is simply no economic or business justification for corporatization.

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

ANSWERS TO QUESTIONS AT THE MARCH 22, 1995 HEARING

Mr. Dean:

If a government corporation is considered for the NPR, how should it be structured? Who should select the Chief Executive Officer or Chairman of the corporation? Should there be a board of directors and if so, who should select them. Will new corporation employees be hired or will existing DOE employees be transferred?

Response:

The Naval Petroleum Reserves Corporation would be a distinct legal entity with its governance and powers set forth in the statute creating it. It would be authorized to operate the reserves within the confines of its charter and the program set forth annually in its business-type budget.

Experience with other government corporations suggests that the corporation can best be managed by a single, accountable chief executive officer appointed by the President and confirmed by the Senate for a six or seven year fixed term. A board of directors would confuse accountability, foster dissension, and impede decisive management.

It would be desirable for the corporation be exempted from the general regulations of the Department of Energy, most of which are designed for activities supported by annual appropriations. We do

believe that the corporation should be subject to the direction of the Secretary of Energy in matters of national energy policy. The Corporation CEO would, in such matters, report only to the Secretary, who could not delegate this responsibility to a lower level official of the Department.

All present civil service employees of the NPOSR activity would become employees of the new corporation as a matter of right. It would also be desirable to offer one year's protection against separation or demotion, except for cause. There are now only about 80 NPOSR employees, which is an inadequate staff either to administer the current office or to manage effectively a new corporation, so there will be no problem of coping with a surplus of employees.

Mr. Dean:

President Reagan proposed to sell the NPR in 1987 and President Bush proposed to lease the NPR in 1991, 1992 and 1993. Congress prohibited even the study of sale or lease of the NPR in 1989.

Why has there been so much opposition to the sale or lease of the NPR?

Response:

In making our study of how best to structure the NPOSR activity,

we researched carefully the history of the reserves. This review indicates that the Reagan and Bush Administrations were unable to make a convincing case that the Government could realize from a sale or lease a return sufficient to offset the loss of income that would result.

As we have indicated in our response to later questions, we doubt that these misgivings can be convincingly dealt with until a corporation using modern business management has established a several year track record with respect to costs and revenues. The excellent report to Congress by the Independent Industry Panel (October 1993) strongly recommends a government corporation to "optimize the operation" of Elk Hills reserve.

Mr. Dean:

If we were to corporatize the NPR, how would we ensure the adoption of management and financial practices that would result in lower costs and increased revenues for the taxpayer?

Response:

The new corporation would immediately come under the Government Corporation Control Act with the ability to utilize revenues

to meet its expenses, it would be required to install commercial accounting systems, it would start submitting business-type budgets, and it would be subject to independent audits of the kind utilized by private sector corporations.

The corporation would also be freed of numerous time consuming, costly and inappropriate "non-value added requirements" imposed by the Department of Energy or statutes not well suited to the needs of revenue producing enterprises. The current NPOS staff is well aware of which of these externally imposed regulations, restrictions and requirements are currently generating unnecessary costs or impeding the efficient functioning of the program. There is little doubt that but that the corporation's management would swiftly rid itself of practices which did not make a positive contribution to its mission.

The corporation would also be able to proceed with the drilling of wells, the installation of pipeline, the construction of natural gas processing facilities and other related capital investments in a timely fashion - which would increase revenues and enhance the value of the reserves. Again, the current staff is competent to judge such needs,

but in some cases have had to wait for several years to get the funding in the form of direct appropriations. Serious losses of revenue have resulted from this unresponsive and unpredictable approach to funding NPOSr needs.

Every revenue producing Government Corporation we have examined has shown marked improvement over the agency that is superseded. A recent example is the U.S. Enrichment Corporation, which was established in 1992.

Mr. Seidman:

In your prepared statement, you say that the best alternative would be to establish a wholly owned corporation subject to the provisions of the Government Corporation Control Act.

Why is this the best alternative?

Would this alternative be more cost effective than the sale of the NPR if a fair price could be obtained? If so, why?

Response:

The National Academy of Public Administration was not asked to consider sale of the petroleum and oil shale reserves as an alternative. We were asked to evaluate management alternatives, including corporatization.

We identified and considered three basic alternatives for managing NPOSR:

1. By secretarial order, establish the NPOSR as a separate entity within DOE, and delegate to its head the functions now vested in the Secretary of Energy.
2. By law, establish an agency within DOE with some, but not all, of the attributes of a government corporation, including revolving fund and borrowing authority.
3. By law, establish a wholly owned government corporation subject to the provisions of the Government Corporation Control Act.

It was our judgement that establishment of a government corporation would be best calculated to assure businesslike operations, to maximize the value of the reserves as a national asset, to reduce operating costs, and to increase the net revenues to the Treasury. In fact, the NPOSR program is precisely the kind of revenue producing activity which the Congress intended to cover when it approved the Government Corporation Control Act.

Mr. Seidman:

In your prepared statement, you say that the establishment of the NPR as a wholly owned government corporation would bring it under those laws and regulations which Congress has determined are most suitable for a government enterprise.

What specific laws are you referring to?

What existing laws would be waived or exempted with the establishment of a government corporation?

Response:

An NPOSR corporation would be subject to the Government Corporation Control Act of 1945, as amended, (31 § USC 9101 ft) which provides for systems of budgeting, accounting, auditing and debt management which the Congress has determined are necessary to provide effective accountability for revenue producing and potentially self-sustaining government enterprises.

The DOE has not yet submitted to the Congress proposed legislation. In the absence of a bill, it is not possible to determine what existing laws would be exempted or waived with the establishment of a government corporation. Such exemptions are provided in the legislation creating the corporation. Generally, a corporation is given the power to sue and be sued in its own name, to retain and utilize its revenues without being subject to fiscal year limitations, to make expenditures subject to only laws specifically applicable to wholly owned government corporations, etc. Statutes specifically applicable to wholly owned government corporations include the Federal Property

and Administrative Services Act, civil service laws and Classification Act, Tort Claims Act, and Contract Disputes Act. Any exemptions or modifications to those laws would have to be provided specifically in the legislation creating the corporation.

Mr. Dean:

The budget proposal for DOE recommended the establishment of a wholly owned government corporation for the NPR and then proposed to sell the NPR in 1997. Would it be possible to set up this type of a corporation and sell the reserves in just two years?

What is the advantage of setting up a corporation for only two years and then sell the assets? What would be your recommendation as to how long a corporation should be established prior to any consideration of a sale?

Response:

The corporation could be activated within 30 days of the approval of the requisite legislation by utilizing the Department of Energy staff currently administering the Naval Petroleum and Oil Shale program. The present Deputy Assistant Secretary of the NPOSR could be continued as the acting chief executive officer until an appointment could be made pursuant to the corporation statute.

The United States Railway Association, which established Conrail, proved that it is possible for a new corporate entity to be made

fully operational within 30 days of the appointment of its first officers - and USRA had no initial cadre of experienced staff of the kind already involved in the operation of the NPOSR.

It is highly doubtful the new corporation could within two years establish a sufficient operational record to assure that the Government would receive the full value from the sale of the Elk Hills field. The corporation simply cannot in less than two years achieve enough of the benefits of the restructuring to enable the Congress to have confidence in any valuation of the assets proposed for sale. The Shearson Lehman report on the possible sale of Naval Petroleum Reserves 1 and 3, issued in February 1998, describes the complexities inherent in any effort to sell, at a price fair to the government, the large Elk Hills and adjacent smaller Buena Vista fields.

While the privatization of Conrail is not a precise model for a sale of the producing Naval petroleum reserves, it is noteworthy that it was ten years after the new railroad became operational and five years after it became profitable before an acceptable plan for the sale of the stock to the public was approved. Any earlier divestiture would have reduced or eliminated the \$3 billion recovered for the Government

through the sale.

Elk Hills field in particular is now bringing substantial revenues into the Treasury. Under the business-like management which will become possible with the corporation this contribution will be enhanced. Only then, will it become possible to know what would be a sale price fair to the American public.

Mr. Seidman:

Given the relatively poor record of DOE's ability to act on its own and improve the profitability of the Elk Hills field, why should Congress trust that any government corporation developed by DOE will operate any better?

Response:

It is doubtful that any manager, public or private, would be able to do a significantly better job than DOE in improving the profitability of the petroleum and oil shale reserves, if compelled to operate under the same archaic body of laws and regulations now applicable to this purpose. The petroleum and oil shale reserve activity continues to be managed and financed as if it were a tax supported traditional government program. Reorganization as a wholly owned government corporation would provide the operating and financial flexibility

necessary for the effective operation of a competitive commercial enterprise.

During our independent study of the NPOSR, we reviewed DOE's economic analysis of different management alternatives. They continue to refine this work, and we are confident that they are prepared to apply a wide range of commercial practices to redesigning the enterprise.

Mr. Seidman:

In your prepared statement, you say you have no doubt that reorganization of the NPR as a corporation will maximize the value of the NPR as a government asset and make possible more effective accountability to the Congress.

How would this more effective accountability work? How would Congress exercise its oversight responsibility over a government corporation?

Response:

When the Congress enacted the Government Corporation Control Act of 1945, it recognized specifically that no self-financing government enterprise could operate successfully if its level of activity was determined not by the market but by the amount of money appropriated in advance by the Congress. The business type budget

required by the Government Corporation Control focusses on financial results and takes into account both revenues and expenditures.

Conversion to a government corporation would improve accountability by bring NPOSR under those control systems designed to assure accountability by government enterprises, not those systems designed for tax supported programs.

As a government corporation, NPOSR would be required to:

- present an annual business-type budget for review and approval by the President and Congress;
- prepare financial statements in accordance with generally accepted accounting principles that could be audited annually by an independent certified public accountant;
- prepare and submit to Congress an annual management report; and
- provide the President and Congress with the information necessary to evaluate accurately the financial results of operations.

Mr. Seidman:

In your prepared statement, you say that if Congress should determine that privatization should be the ultimate objective, corporation would enable potential purchasers and the U.S.. government to better determine the fair value of the assets.

How long should this process take place? Are there any specific milestones or objectives that should be attained prior any consideration to sell the reserves?

Response:

It should be emphasized that the corporation would be responsible not only for Elk Hills (NPR-1), but also for the Buena Vista (NPR-3), and Teapot Dome (NPR-2) fields, and the oil shale reserves. Operating under both legislative and administrative restraints, it has not been possible to exploit the full profit making potential of these assets. We need to have substantial experience with management of the assets as a business before it will be possible realistically to estimate their value. At least several years of operation free of current restraints would be necessary before a reasonably accurate estimate could be made.

Mr. Seidman:

Do you believe that DOE is truly committed to trying to "mirror" a commercial oil and gas operation and that it is in the best interest of the taxpayer for it to manage a profit-making entity like an oil and gas field?

Response:

I have no reason to doubt that DOE is truly committed to operating the petroleum reserves as nearly as an efficient commercial enterprise, pending a decision as to sale. Whether or not the

government should continue to operate the oil and gas fields, is a policy issue that must be decided by the Congress. Normally the government does not undertake activities exclusively for profit, but the revenues from the reserves have made a substantial contribution to the reduction of the budget deficit.

Mr. BATEMAN. You have given us a very great deal to think about. Everybody seems to have the same objectives, it is a question of drawing the map as what is the most expeditious way to get to that destination.

We will be wrestling with this for some weeks to come, and you have made a very valuable contribution to our effort to try and bring this matter to closure in this session of Congress.

Thank you very much for your attendance and for your expertise today.

[Whereupon, at 4:26 p.m., the subcommittee was recessed.]

DEPARTMENT OF DEFENSE SUPPORT INFRASTRUCTURE

HOUSE OF REPRESENTATIVES,
COMMITTEE ON NATIONAL SECURITY,
MILITARY READINESS SUBCOMMITTEE,
Washington, DC., Thursday, March 23, 1995.

The subcommittee met, pursuant to call, at 2:05 p.m., in room 2212, Rayburn House Office Building, Hon. Herbert H. Bateman (chairman of the subcommittee) presiding.

STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, MILITARY READINESS SUBCOMMITTEE

Mr. BATEMAN. The subcommittee will please come to order. Today we will continue our deliberations on the fiscal year 1996 national defense authorization by examining the efforts of the Department of Defense to manage and reduce its infrastructure.

To say that DOD is a big organization is an understatement. However, it's a lot smaller than it used to be, at least the force structure. We are downsizing by 8 Army divisions, 12 Air Force and naval wings, 216 battle force ships, and nearly 616,000 military personnel. That's a lot of muscle.

Yet, there seems to be great potential to reduce support infrastructure in order to keep pace with these force structure reductions. If we aren't vigilant on oversight of these support activities, we're going to have to take out even more muscle. We are determined not to let this happen.

The Nation is being asked to make enormous sacrifices in a myriad of programs, and Congress has spent long hours in recent weeks toiling and wrenching hands on tough budget choices. And it appears that the task is getting more difficult.

In this austere budget environment, we need more than ever to demonstrate our resolve to make each defense dollar count; to make it clear to the American taxpayer that we demand as much from the defense management structure as we do from the rest of the Government; to demonstrate to the soldier, airman, marine, and sailor that we will do our duty and redirect savings from wasteful programs to the things they need to be safe and effective on the battlefield.

It just can't be business as usual. This is a dangerous world, and we need to maximize the effectiveness of each defense dollar. The approach that appears to be taken is across-the-board ratcheting down of each program and spreading out the pain rather than hard tradeoffs, zero-basing programs and establishing priorities.

It appears as if some of the bureaucratic organizations are more sacred from scrutiny than the military units for which they're supposed to provide. We have a responsibility to the taxpayer to ensure that there's sound stewardship over the resources that are entrusted to the Department of Defense. The financial management problems of DOD didn't happen overnight, and they won't be solved tomorrow.

But we will make a start, and we must insist on reforms in this area. DOD can learn a lot from taking defense practices of the corporate world and applying them to their programs. Technology holds promise, but we need to ensure that we don't fall into the trap of investing in information technology that will merely automate outmoded business practices or perpetuate the same inefficiencies or mistakes. We're pleased to have with us today Ms. Donna Heivilin. I hope I pronounced that correctly.

Ms. HEIVILIN. Heivilin.

Mr. BATEMAN. Heivilin; accompanied by Mr. Jack Brock from the General Accounting Office. We are grateful for the extensive efforts that GAO has made in this area. We are also pleased that we will have with us the Honorable John Hamre, the Department of Defense Comptroller, to outline DOD efforts to address the infrastructure issue.

We also look forward to hearing from Secretary Hamre regarding the administration's plans to deal with the issue of contingency funding, a matter of great interest to the subcommittee and to the Congress at large.

Before we proceed with Ms. Heivilin, I will seek any comments from our ranking member, Mr. Sisisky.

STATEMENT OF HON. NORMAN SISISKY, A REPRESENTATIVE FROM VIRGINIA, RANKING MINORITY MEMBER, MILITARY READINESS SUBCOMMITTEE

Mr. SISISKY. Thank you, Mr. Chairman. I join with Chairman Bateman in welcoming the witnesses to this hearing today. I also believe that there are some commercial business management practices that are equally applicable to the Department.

That includes not only providing meaningful and reliable fiscal information for management decisionmaking, but also insuring that the Department has in place sound day-to-day management practices and procedures.

This is especially true today as the Department continues to experience a turbulence generated by downsizing its forces and activities in an environment with increasing unplanned commitments and reduced dollars. All the issues before us today are crucial to, and directly impact on, retention of force readiness.

As well as the chairman, I am especially interested in understanding more about how the Department proposes to pay the costs for supporting unplanned contingencies without adversely affecting readiness. I look forward to your testimony in response to questions from the members.

Mr. BATEMAN. Just a moment, I think my colleague just said something.

I see you are also accompanied by Ms. Paslitt. We welcome each of you. Please proceed at this time.

STATEMENT OF DONNA HEIVILIN, DIRECTOR OF DEFENSE AND NASA MANAGEMENT ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, GENERAL ACCOUNTING OFFICE

Ms. HEIVILIN. Mr. Chairman, Congressman Sisisky, I'm happy to be here today to assess the Department of Defense's progress in reducing its immense infrastructure and improving its financial management operations, and to identify opportunities for eliminating unnecessary overhead by adopting better financial management and business practices.

I'd like to summarize my statement and submit my full statement for the record.

Mr. BATEMAN. It will be made a part of the record.

Ms. HEIVILIN. Thank you. In 1999, DOD's budget authorization in current-year dollars is projected to be less than it was in 1980, but a half million less active duty personnel will be on board. We will be spending about 38,000 in constant dollars more per soldier, and 56 percent of that increase is in O&M, operation and maintenance.

The infrastructure reductions are, obviously, not commensurate with the force level reductions. For example, base closures with this year's recommendations, if accepted, will be 21 percent of the infrastructure. The goal was 30 percent. Frequently, DOD does not save the amount that it estimates it will save.

A couple of examples of that, besides the base closure example I just gave you, was in the Defense Management Review initiatives with the promise to save billions. They're having trouble tracking, and they've reduced the estimate of what they're saving. In the Corporate Information Management Program, basically called CIM—generally we think of it as CIM—they also promise to save billions of dollars. They have reduced their estimate and, in fact, say they cannot track what they're saving in most cases.

Mr. BATEMAN. What was that second?

Ms. HEIVILIN. CIM—the Corporate Information Management Program.

Mr. BATEMAN. Yes.

Ms. HEIVILIN. A major problem in this regard is the lack of fulfillment of promises made by the Defense Business Operating Fund [DBOF]. There are two important factors to making good decisions about whether or not to implement a new process.

First, whether or not you're going to have better service to the customer and, second, whether you're going to save money, and that requires doing a good cost-savings analysis.

It's difficult to do this without accurate cost information. DBOF was intended to improve the accuracy of the cost information, but it has not done this. It has also not managed the fund's cash well. Right now the DOD is decentralizing the cash management to the Services, a move backward to the structure before DBOF, and we do not think this is a good move.

In my summarization, I'd like to comment on four specific infrastructure areas that I have in my full statement. The first area I'd like to talk about is the inventory. It is a high-risk area. In September 1993, DOD reported that the centrally controlled inventory was \$77.5 billion, and we reported that \$36 billion of this was not

needed for war reserves or for the current operating requirements. Current operating requirements is defined as 2 years of operating requirements.

In the 1980's, the forward-looking companies in the private sector started managing their inventories very differently. They started bringing their stocks down, reduced the cycle time, and increased customer satisfaction. And, they made sure that the inventory that was needed was where it was needed when it was needed. In other words, it got the supplies to the customer at the time they needed them.

The Defense Logistics Agency, which manages the central stocks, has done some good things in this regard. The best example that we can point out is in medical logistics. They have replaced three of the inventory stock points with a contract prime vendor.

If you will look at the back of my full statement, I have a chart as attachment 3, that shows what stock points were removed to replace the prime vendor. They are putting that prime vendor concept into 150 hospitals and medical treatment facilities. And by moving to that system, they're reducing the costs and they're improving service.

However, the biggest area of consumables is what we call hardware items. They're items such as nuts, bolts, pipes, and joints—things you buy in a plumbing store and in a hardware store. If you look at attachment 2, you'll see that about 77 percent of their consumable inventory is in that area.

We benchmarked in that area and found that the leading companies have reduced their inventory by about 80 percent. This is what they call a supplier-part concept, and that's basically where they have their key suppliers locate small warehouses close to their plants that the companies are using—and have them take care of the inventory, much like a prime vendor. DOD is resisting putting this kind of concept in place, even though we found that it's been used in very similar situations.

The second area I'd like to talk about is the Defense Financial Accounting Service [DFAS]. We have work going on in this area that we expect to report out in about 2 months. It's for your committee. What we found is that they're downsizing, but they're not trying to improve customer service.

In fact, our analysis shows that, in some cases, the service will be degraded. The evidence we've looked at supports moving to 5 large and 6 small centers, and not the 5 large and 20 small centers that DOD is planning to move to.

They are also planning to reengineer later, and we think that they need to do it right away. An example of some of the savings we think are out there if reengineered, we looked at the paying of freight bills, proposals to pay freight bills by private sector companies. They have some proposals to pay the freight bills for DOD at five times cheaper than what DFAS pays or what their costs are to pay the bills right now.

Also, we looked at the leading companies that manage pay accounts, and in the leading companies a person managing pay accounts manages 3,000 accounts. In DFAS, people managing pay accounts manage an average of 684 accounts. If they reengineered now, before they moved to the centers, they would need less people

in those planned centers than they're now planning to put into those centers.

The third area I'd like to talk about is TransCom. That's the Transportation Command. We, again, have work that's ongoing in this area. It's work for you that's not quite as far along as the DFAS area, but we do have some observations. TransCom was set up in 1987 and, even though we support the consolidation in this case, all DOD did was add a layer on top of the layers of the infrastructure that the services had in place, leaving the whole infrastructure that the services had—which is the relic of managing mode by mode—not the intermodal management that you now see in the commercial sector. TransCom is reengineering. They're looking at reengineering but they're not dealing with their organizational structure, which we believe needs to be dealt with first.

The fourth and last area I'd like to cover in my summarization is the Corporate Information Management project. Again, work we have ongoing in this area is for your committee. The CIM project was intended to reengineer DOD's business processes and to modernize existing automated systems and standardize their use across DOD. Our concern is that the placement of CIM sends a message about functional ownership.

First, the message it sent when it was in the comptroller shop is that the main thing they wanted to do was save money. The second message we believe being sent, as we talked to people in DOD within the CQI arena, is that the primary motivation is to use technology.

When we look at companies who have successfully reengineered, one thing we noticed and one thing that they talked to us a lot about was it was very important that the responsibility be placed very high in the organization, under the CEO, and that it not be placed in a functional area so that there was no functional ownership for it. Then reengineering is cutting across all functional areas, looking at a process from the beginning to the end.

Also, DOD is requesting \$2.9 billion for the modernization of automated systems. Since the focus of much of that money, when we looked at it, is standardizing existing systems before reengineering those systems, we question the value of this investment.

I'd like to make some preliminary observations. This is not in my written statement. You asked DOD to report on the establishment and implementation of performance measures and management controls for a supervision and management of accelerated implementation of migration systems, establishment of data standards, and process improvement.

As we looked at this, it's clear to us that DOD is not very far along in establishing and implementing performance measures. We are pleased to see that they include return on investment as one measure, however, we do not see any performance measures that allow DOD to specifically assess the gains from DOD-wide reengineering. Of the 17 systems that DOD says have had functional economic analysis, we question whether they have. We have materials for some of them that shows the analysis has not been done for some of those 17 systems that are listed.

Last, the report is unclear as to what management controls will, in fact, be identified as was requested in your Authorization Act. Currently, Federal managers have little incentive to make the kinds of changes that are associated with reengineering, and they do need encouragement. But the less DOD spends on the infrastructure, the more that can be made available for other needs. If you do reengineering right, if it's done well, you can improve the service besides saving money. That concludes my summarization. I'll be pleased to answer any questions you might have.

Mr. BATEMAN. Well, thank you very much, Ms. Heivilin. The last point that you made about the 17 analyses that they reported they had done, are you saying that they had not done them well, or are you saying that they hadn't done them at all?

Ms. HEIVILIN. Let me let Jack take this question.

Mr. BROCK. Again, I want a quick caveat. We just got this report this morning, but in a cursory look at different sources of DOD information, some of the 17 systems that they exempted from section 381 of the 1995 Defense Authorization Act because an economic analysis had already been improved, we have other material that indicates that that is not the case.

For example, rural leasing will report to your committee in about a month on the depot maintenance system, one of the exempted systems, and we have severe problems with the analysis that was done, and we're going to be concluding that the investment being made in that system may not be a wise investment and we need to look at other viable alternatives for improving depot maintenance operations.

Mr. BATEMAN. On the inventory issue that you mentioned, you said that they were reflecting \$77.5 billion in inventory, and then you mentioned 36. Was that 36 percent of that amount?

Ms. HEIVILIN. No. It's \$36 billion, which is—

Mr. BATEMAN. About half.

Ms. HEIVILIN. About half, right. About half of it is beyond 2 years of stocks, and that's 2 years given the current usage of stocks.

Mr. BATEMAN. I hear concerns expressed about the operation budget of DBOF. I don't know how long I'll be here, but it looks like it's something that I'm doomed to hear as long as I'm here. Do you have any specific recommendations as to how that—

Ms. HEIVILIN. Mr. Brock has a number of recommendations for you.

Mr. BROCK. I'm relatively new to the defense area. I know you're frustrated with DBOF. I've been in the area for about 6 months now, and I'm already frustrated with DBOF as well. Our concerns with DBOF are not with the principle of the concept. We think it's a good principle. You want to know the full cost of goods and services, and by consolidating and getting an opportunity to better manage the program in a single way, you offer some opportunities for improving cash flow and for improving overall management control.

I want to underscore something and that is that the problems that DBOF has now are inherited problems. They're not problems that the current management is introducing. They're problems that were already in existence when the funds were consolidated, but we're concerned with the losses that aren't accounted for.

We're concerned that they're not required to come up to Congress and account for prior losses. We're concerned that one of the primary objectives of the system was to reduce the amount of cash that was needed by consolidating the funds. That position has now been reversed this year, and separate services and components will now be managing the cash. As a result of that, there's been an increase in advanced billing.

It reminds me of my son a few years ago when he wanted constant advances on his allowances, and we just built up a giant pyramid of what he owed me. We're seeing the same thing happening now. Advanced billings are increasing. There's no real incentive that they have for proper management.

We're concerned that there's a real gap between the policies and procedures that are established at headquarters and the actual implementation of them at the finance centers. There's very little discipline, and there's very little accountability. We think the promises that were made for DBOF were good. We think they were well intentioned, but the implementation has been very weak.

Mr. BATEMAN. Who provides the primary oversight within the Department of Defense for the operation of DBOF?

Mr. BROCK. That would be the comptroller's operation.

Mr. BATEMAN. He's smiling. Mr. Sisisky, do you have some questions?

Mr. SISISKY. As long as you're talking about DBOF, but let me just ask you a question. How much cash is required under the separate DBOF structure instead of the central DBOF fund? Do you know that? You see I'm trying to get my hands on something.

Mr. BROCK. We don't think anyone knows, but we think that cash requirements will go up another couple of billion dollars by decentralizing. And, one of the things we see, as I mentioned before in my previous response, is that since the decentralization, advanced billings have already gone up. I think only the Navy was advanced billing, and now all three services are advanced billing.

Mr. SISISKY. So that's why you're opposed to moving it to services rather than the central?

Mr. BROCK. Well—

Mr. SISISKY. I kind of like it that way myself.

Mr. BROCK. Well, we testified originally on DBOF. DOD management made the claim that they could get by on less cash flow; that they would be able to free up cash for other purposes through this consolidation, and now they're moving back. Either they can do it or they can't. It appears that they weren't able to do so.

Mr. SISISKY. You were critical of the accuracy of the fund's financial reports. What actions do you think DOD can take to improve the accuracy of these reports?

Mr. BROCK. Well, one of the things they're doing that we support are the improvements—and this is a very long-term effort—of their financial systems. They're spending an enormous amount of money, probably in excess of \$100 million, to improve their systems. But, we don't think they should take action on these until they do the functional economic analysis. I believe that's an effort that's also supported by the comptroller.

There could be a lot more discipline in their current operations in carrying out their present procedures and processes. We uncov-

ered, I think it was an \$8 billion error in one of the funds. It was essentially a clerical error. Something that could have been fixed without a system.

Mr. SISISKY. Repeat the amount again?

Mr. BROCK. An \$8 billion error.

Mr. SISISKY. I see.

Mr. BROCK. And I know the number isn't much larger in DOD than the numbers I've been used to before, but \$8 billion still seems like a relatively large number to me.

Mr. SISISKY. Who were you with before?

Mr. BROCK. I was doing work on civilian agencies before.

Mr. BATEMAN. Well, that's one thing about an \$8 billion error. Presumably it's a lot easier to find than if it was 8 cents. They're the ones that drive you crazy.

Mr. BROCK. Well, one of the things that concerned us is that we had to identify the error. At the same time, in some of the processes and procedures that we approve of that DBOF was adopting at the corporate level, we were going out to the finance centers, and they didn't even have the implementation orders, so we were also having to provide that service to them as well.

Mr. SISISKY. This is off of DBOF now, but you were talking about smaller warehousing of parts and supplies throughout the country?

Ms. HEIVILIN. Yes. I was talking about the supplier-part concept for the hardware items.

Mr. SISISKY. To the degree they're doing that, even at larger centers now, they're reducing that. I've watched one of them. It's just amazing how it comes in and goes out now. They have done that. That will be solved by smaller centers. As a matter of fact, I think it may compound the problem.

Ms. HEIVILIN. But the idea is that you replace the central inventory—it's very much like attachment 4 that I have showing the prime vendor taking the place of three levels of stock. Then the supplier-parts would do the same thing. It would take the place of three levels of stock. Every time you have a level of stock, you have additional safety levels. You know, security basic stocks.

So the more levels of stock you have, the more extra stock you have, and when you put in place something like the supplier-part with the prime vendor, at the same time you're putting in place a concept of inventory always in motion, and you're bringing down the amount of inventory that you say you need because you're moving it all the time.

For instance, this 2-year stock that I was telling you about. That's their old philosophy, and we didn't even take on whether that is, in fact, appropriate philosophy when we said \$36 billion was more than they needed.

Mr. BATEMAN. The assumption was 2 years.

Ms. HEIVILIN. The assumption was 2 years, right. But if you moved to supplier-parts, your assumption would be probably 60 days or, at the most, 80 days. When you get to some of the companies that are very advanced at using this concept, they're talking about 2 or 3 days, maybe even zero days. Just continually moving the inventory, knowing what they are going to need, and having the supply set up in such a way that they can deal with very, very little.

And, basically, in the supplier-parts, you don't want the vendors who are providing inventory to only provide it to the military. Let's say they're doing it for one of the repair depots. You want them to be a small portion of their business, maybe 20 or 30 percent.

Mr. SISISKY. Well, I did that in my business life before I came here. I was a producer of soft drinks, and we never kept more than 8 hours of packaging on hand. Let me just say this, we knew exactly what it was that we needed in the marketplace. Unfortunately, the Department of Defense is not like that. There's millions in the military that—the military specs have a lot of things. Maybe when we get out of the military specification——

Ms. HEIVILIN. Well, I'm talking about a repair system where you know what you're going to repair and you know what it's going to require. So, I'm talking about very much a commercial-like activity. It could be an activity that looks very much like your local repair garage or like Boeing's repair and overhaul facility. In those situations it is very much like a commercial activity.

It's not like building a new plant where you don't know what you're going to have or, in fact, repairing an absolutely new plane where you're not sure if you have to change something over because it's not working the way it's intended. I'm talking about the continual repair of things that have already been in the inventory awhile and that you're continually bringing in and changing over.

It could be something as simple as a motor, an engine that you have had in a cargo plane and have been using for the last 10 years. You have a pretty good idea of what it is you need. So, it's more like your situation.

Mr. SISISKY. A little different, but go ahead.

Ms. HEIVILIN. A little.

Mr. SISISKY. Not a lot different.

Mr. BATEMAN. At this point let me recognize the gentleman from Alabama, Mr. Browder.

Mr. BROWDER. I have no questions, Mr. Chairman.

Mr. BATEMAN. Our colleague from California, Mr. Cunningham?

Mr. CUNNINGHAM. As operators, you have a real hard time. I know when I was in Alfa-5, working for Vice Admiral Turner and Vice Admiral McDonald, we had fighting at the top more than we did Democrats and liberals.

The issues of unobligated dollars versus others, and then you have long leads who wanted to buy engines, and we could not make NAVCOM realize that if we don't provide—in that case it was \$50 million long leads—then we'd never have the engines, and they kept wanting to take it.

As a matter of fact, I don't know if Mike Ortega still works down there or not, but I remember Mike Ortega arguing and basically saying, you fail to see the solution to a very simple problem. And one of the things that Pat Schroeder brought up this morning was about a \$900 ashtray. Well, it wasn't, \$900, it was \$300.

One of the reasons you end up with that is because we can't get the funds when the wine is running to buy the amount of spare parts that we need. When you look at readiness, a lot of it comes from the inability to have the funds available; that we're constantly fighting the bean counters for the operators saying, this is what we

need. And, of course, this volume doesn't give them what they need either.

It's not all your fault. It's just as much our fault. But I know the real reasons that I see for readiness, and when you say that you can't get indicators—I invite you to go out and talk to the kids. Not the four-stars, not the three-stars, but go out and see that these kids are not flying. They're sitting there because they don't have enough fuel to fly. They don't have engines that are ready.

Karen Hopegreen, the first female F-14 pilot who was killed recently, we fought to get the TF-30 engine in the F-14, and the liberals didn't give us enough money to upgrade those engines. She ended up with a TF-30 that had the compressor stall in Desert Storm. We knew that, and still we're having kids fly those kinds of machines. That's readiness.

Your skipper can tell you how much their AOCP for parts or that if they have a squadron unit or I have a kid that can't go to the boat and be ready because I don't have enough time to train him, or this carrier can't steam because we don't have fuel.

Those are the things that we really need to get our hands around and work with GAO and NAVCOM, because it's not just a lack of funding. It's the bureaucracy and the system that exists today, and I'm part of that. I'm not just pointing fingers at you. And I laud Vice President Gore with the off-the-shelf type thing.

You ought to have a white paper on why you have to buy MilSpec instead of off-the-shelf or vice versa. Then you won't have \$300 ashtrays, and you won't have those kind of things. You can go down to Kmart and buy something that's going to do the same thing for a price that costs us 10 times that much.

I would ask you to really take a look, and when you're talking about readiness and procuring, don't rely on the four-stars. Go down and talk to the kids, and they'll tell you much more than you'll ever hear back here in Washington, DC. And, Jack, since you said that you're just fresh into it, I would highly recommend it to you.

If you want to get your arms around what you're really trying to do and who you're trying to help, go down to the Army units, to the bases. Go down to the Marine Corps. Go down to the Navy unit and talk to the kids, and they'll give you the best direction to go, even more than we could up here.

Mr. BROCK. Well, I got some indication from my E4 son in the Reserves.

Mr. CUNNINGHAM. Good.

Mr. BATEMAN. Ms. Fowler.

Ms. FOWLER. Thank you, Mr. Chairman. Miss Heivilin, I just have one question. I looked at your prepared statement, and in that, you had, according to the spec, that the DOD's depot management structure had not resulted in substantial competition and/or reduction of excess capacity to the efforts, and you expressed concerns about that. Well, I just want to make note that I think some of the services have done more on this than others.

Ms. HEIVILIN. That's true.

Ms. FOWLER. I know that in the 1993 round, the Navy reduced their aviation inventory, by 50 percent, and I believe they're leading the services in the amount of work they enter service. But I do

think there has been some effort toward that which seemed not to be acknowledged in your testimony, and I think you just need to bring some of us along in that same regard, because I do share your concerns.

Ms. HEIVILIN. The Navy has done quite a bit in that regard, and the Army has, too. The Air Force has virtually done very, very little.

Ms. FOWLER. I know that different accounting methods are used, between the different Services. Does that contribute somewhat to an inability to determine what the relative efficiencies are? The system?

Ms. HEIVILIN. Well, actually what was happening in the base closure process was that it came up through each service separately. Last year we said that DOD needed to encourage the Services to cross service, to talk to each other, to look at their depot system across all the Services, and to make decisions that were best for all of DOD. This year they attempted to do that, but it did not have the results that they hoped it was going to have.

Ms. FOWLER. Well, I agree, but when we've looked trying to compare, it's like apples to oranges because they use different accounting mechanisms. Is anything being done to get these different ones on some sort of similarity of accounting so that can better be done, or is that not really a concern?

Ms. HEIVILIN. Well, actually they do have different accounting systems, and we don't necessarily think that's good. We think that they should have the same accounting systems. I'm not aware that there's any initiative underway to try to put the same accounting system in all of the depots.

There is one accounting system initiative they are looking at, and if they can determine that it works well, they're talking about moving it to all of the depots. I don't think anything has gone far enough at this point that it's being put in all of those depot systems. People are talking. Well, they have the idea of a standard system, but I don't think anything is really happening except the one standard system that they're working on out in Utah.

Ms. FOWLER. At least it's maybe—

Ms. HEIVILIN. There's something underway. Let's just put it that way.

Ms. FOWLER. Maybe to simplify the process—

Ms. HEIVILIN. It's going to take longer than you would like it to, however.

Ms. FOWLER. Thank you.

Mr. BATEMAN. Mr. McKeon.

Mr. MCKEO. I don't have any questions.

Mr. BATEMAN. You mentioned that in terms of the infrastructure and it being out of alignment with the forces, that BRAC has not met its objective of the 30 percent. Is that in part due to the fact that the BRAC process is so immediately costly that they couldn't afford to do the savings in the near term, given the present budgetary environment? Is that a factor?

Ms. HEIVILIN. You probably should ask the comptroller that question. We've been told that there is some concern about the amount of money that BRAC is costing, and I think DOD has estimates that for any particular BRAC process, they break even and

start saving money 5 years up, but they do have to pay for that 5 years before they start getting the money back. So, there is an up-front investment.

Mr. BATEMAN. There's been a lot said about not having had the capital to have made millions of dollars.

Ms. HEIVILIN. Yes.

Mr. BATEMAN. Making good investments. The inventory problem, is this, in part, a phenomena of the much larger force structure buildup during the eighties?

Ms. HEIVILIN. Part of it is.

Mr. BATEMAN. The procurement of what was ample for that force but surplus to the existing force?

Ms. HEIVILIN. Yes. Part of that's true. As you bring down the number of planes, ships, trains, tanks, trucks, et cetera that you're going to be repairing and that you're using, then the amount of inventory you need becomes less and the number of years you have extra inventory, of course, grows. That is part of it. It's not all of it, but it's not small. And part of it is continuing to buy longer than you should, even if you know that certain planes or trains, et cetera are going to be taken out of the inventory, just because the system is so complicated in getting messages to people. Sometimes it takes longer than it should.

But some of it is continuing to believe that more inventory is better than less inventory. It's kind of hard to change that thinking around. It's left over from times when you were at war and you didn't have the inventory you needed. It's kind of a bunker mentality.

We have a very different country now. Our transportation and our distribution systems are much better and, basically, they need to reengineer the systems to take advantage of that. You don't need to have as many supplies stocked up in places, contingency supplies, as you used to.

Mr. BATEMAN. Well, is a part of it a fear of the results of an acquisition system that is more complex than most acquisition systems? If you and I personally own our businesses and have the need for something, we know exactly who to call to get it off of a shelf.

Ms. HEIVILIN. Yes.

Mr. BATEMAN. But if it's DOD, part of that culture has been to do it to military specification and the time lines and point of recognizing the need, placing an order, getting approval, going through all of the procedures and the processes. It's much more extensive, and it shows up in surplus inventory.

Ms. HEIVILIN. Part of it is what you're alluding to, which is what they call the long lead times between when you say I need more, and actually get all the paperwork out and it gets delivered. And sometimes, in the meantime, while all of that's going on, you don't need it any longer.

Mr. BATEMAN. Well—

Ms. HEIVILIN. It comes in anyway.

Mr. BATEMAN [continuing]. I have difficulty remembering figures off the top of my head, but my recollection is that we're talking about somewhat of a \$36 billion procurement budget now, compared to something that may have been almost twice that a few years ago. Have you seen a decline in the number of people who

were carrying out the acquisition function in the Department of Defense?

Ms. HEIVILIN. I don't have those numbers in my head, but I have looked at what the supply budget is over the last 3 years, and it remains constant. It's about \$50 million that is spent on supplies. It's not a number you can find by looking in any book.

You have to work with the comptroller's shop to pull a number of numbers together because supplies are bought out of not only O&M, but out of procurement and R&D, but the number seems to stay the same. You would think it would be coming down, but it doesn't seem to be.

Mr. BATEMAN. The term "supply" doesn't have much meaning to me.

Ms. HEIVILIN. Well, it is everything except big-end items. Like, it's not a tank and it's not a plane, but it is something that's going to be repaired. It might be a black box that goes in a plane, or it's something as simple as the desk or the food.

Mr. BATEMAN. Spare box, food, clothing, things of that kind?

Ms. HEIVILIN. Yes.

Mr. BATEMAN. There's been no decline in the——

Ms. HEIVILIN. The amount of money we've seen being spent in purchasing remains constant.

Mr. BATEMAN. Before I turn to one of my colleagues, let me ask this question, and if you want to amplify your answer for the record, that would be more than acceptable, but we have some suggestions that there are opportunities to save money in the travel administration area. Have you looked at that, and do you have any recommendations of suggestions along those lines?

Ms. HEIVILIN. We have some work that's going to be reported shortly on that, and there are opportunities for millions of dollars of savings in that area, by reengineering and putting in best practices of companies out there that have, in fact, brought their costs down to around 5 percent of the travel.

Mr. BATEMAN. Well, I'm sure the committee will be very interested in looking into that area and trying to verify whether there are, indeed, substantial savings there and try to do what we can to see that they get implemented.

Ms. HEIVILIN. That work should be available next week, and we would be very happy to provide it to your staff.

Mr. BATEMAN. I look forward to that. Mr. Scarborough I believe is next, unless Mr. McKeon has a question.

Mr. McKEON. No.

Mr. BATEMAN. No questions? Mr. Scarborough.

Mr. SCARBOROUGH. No questions.

Mr. BATEMAN. Mr. Sisisky.

Mr. SISISKY. I wanted to follow up with you on the inventory level. Part of the problem is our problem. We have trucks over 20 years old. The military doesn't know whether the Congress is going to approve money or the Department of Defense is going to budget money for trucks. Every time I get into a meeting, the Army needs trucks.

Well, anybody that's ever run a business knows if you have a truck 20 years old, it's going to cost you so much money to operate it that they have to speculate on the parts on the thing. So it's Con-

gress' fault for not providing enough trucks, enough money. I'm not trying to take up for the supply system but, like I said before, it's not exactly like a business, where a business person can make that decision and it's there. Even the President can't make a decision——

Ms. HEIVILIN. Well——

Mr. SISISKY [continuing]. In this country without the Congress doing it, so it is different.

Ms. HEIVILIN. When we go in and do a benchmarking of best practices, we try to see what's comparable to the private sector and to DOD and try to figure out what's different and show that comparison to DOD. Then we suggest to them that they put a pilot in place and see what they can do; what pieces of that they can put in place.

We aren't totally convinced it can mirror the private sector exactly, but we do think that there are a lot of good ideas out there that could give them better efficiency than they presently have. I don't want to leave the impression that we think they can do it exactly like the private sector.

Mr. SISISKY. Let me do something because I know time is short, but, if you could describe those programs that have short-term savings and those that'll take longer, I think it will be helpful.

Ms. HEIVILIN. OK.

Mr. SISISKY. Unless you have it already in front of you.

Ms. HEIVILIN. I have some of it in front of me.

Mr. SISISKY. I just didn't want to extend the time.

Ms. HEIVILIN. With the things that we have in the written statement, we think there is between \$4 and \$5 billion of savings that are fairly short-term savings if the initiatives were put in place. I don't need to go over them all today. I could talk about some of them if you wanted me to, but we'd be very happy to sit down with the staff if you would prefer and go over them in detail.

Mr. SISISKY. Four billion dollars in savings and you can sit down with me. We'll find time.

Ms. HEIVILIN. I can go through them, or we can sit down some other time.

Mr. BATEMAN. If you would give us a summary. Give us highlights. Give us something we can get a feel for areas to pursue.

Ms. HEIVILIN. OK. We believe in the restructuring of defense transportation. There is a saving of \$½ billion to \$1 billion. In printing and duplication operations we have a very, very extensive analysis there in savings of \$20 to \$30 million.

In the DFAS area, where I was talking about the numbers of centers that they're going to go to being 5 large, 20 small, where the announcement shows 5 large and 6 small, we believe the savings would be \$3 billion over 20 years. Also there is some construction money immediately there that they're requesting for 1996, 1997.

In the movement toward using more civilian employees to take the place of some of the military employees—here it might require some help on your part because you do authorize civilian levels and military levels separately—but if you could get over that hurdle, we see about \$16 million a year in savings in that area.

Mr. BATEMAN. Are you saying by increasing the——

Ms. HEIVILIN. Increase——

Mr. BATEMAN [continuing]. Civilian employee as opposed to military personnel performing the——

Ms. HEIVILIN. Yes, and we have a report on that. What that report did was it looked across the Services at the numbers of civilians who were being used for certain functions versus military, and they were functions that are common functions like personnel, truck drivers, food service, and that kind of thing.

Basically, what we did was we calculated if you used the percentage of civilians that the Service who used the largest number of civilians—if all Services went to that same criteria, then what would the savings be? I think it's about \$15,000 less a year per civilian employee average than military employee.

For example, the Navy, for motor vehicle operators, all of their operators were civilian, whereas if you looked at the Air Force, 43 percent of the their operators were civilians. If you move to 100 percent, then it's \$15,000 per year per person.

Mr. BATEMAN. Well, give me some reasons why the Air Force has a higher percentage of civilians than the Army. Which part of their military function is to operate motor vehicles, to a much greater degree than would be the case with the Air Force?

Ms. HEIVILIN. Well——

Mr. BATEMAN. I'm not arguing the point.

Ms. HEIVILIN. There are some obstacles. And, again, I want to point out that because you set a level for civilians and you set a level for military, you would have to decide whether you were, in fact, willing to do something about that so this could be put in place.

Mr. BATEMAN. You said, "set a level". Are you talking about we set an end-strength level for military?

Ms. HEIVILIN. More or less.

Mr. BATEMAN. Civil service?

Ms. HEIVILIN. This would increase the civilian-end strength level if you did this, and you would have to decide if that was something you wanted to do. In the defense inventory management area, we——

Mr. BATEMAN. Am I wrong in my recollection that civilian personnel levels have come down to a lesser degree relative to the downsizing that is taking place in the uniformed military?

Ms. HEIVILIN. I believe that's so. I don't have the numbers in front of me.

Mr. SISISKY. The FTE.

Ms. HEIVILIN. You're right. The FTE's.

Mr. BATEMAN. It's not as easy as it might appear.

Ms. HEIVILIN. You're right. This is not as easy as it might appear. I don't want to imply that this is easy to do.

Mr. BATEMAN. I'm certainly not saying that in the context that it's something not worthy of consideration. It is. Yes, Mr. McKeon?

Mr. McKEON. I have a question, if you could yield.

Mr. BATEMAN. Yes.

Mr. McKEON. Maybe I misheard, but I thought you said that if we replace a military vehicle driver with a civilian driver, we will save \$15,000.

Ms. HEIVILIN. I wasn't referring to a specific driver. I was averaging across all of the civilian employees versus the military employees. On an average, it's \$15,000 less per person per year for a civilian employee than for a military person. That's across all of the military in these functions, and it's a series of functions that we have looked at where they use civilian employees. So that's not specific to the driver of a car. It's across accounting, in auditing, general administration, and computer operators.

Mr. McKEON. I don't see how you save \$15,000 per person when the amount that we're paying per military versus civilian—

Ms. HEIVILIN. Yes. This takes in all of the costs of a military person versus all the costs of a civilian person.

Mr. McKEON. I'd like to see that.

Ms. HEIVILIN. Yes. I think we have a copy of that report with me. I'd be very happy to provide it to you and perhaps come up and discuss it with you and your staff.

Mr. BATEMAN. It would be useful to have that data. I think what throws it out of whack, if I might interject here, is that they're including the cost of uniforms and all the other allowances in the military.

Ms. HEIVILIN. You're right.

Mr. McKEON. I'd like to see it.

Mr. BATEMAN. Yes.

Ms. HEIVILIN. Certainly.

Mr. BATEMAN. It would be useful data, especially if you have it by classification.

Ms. HEIVILIN. Yes. This covers 24 job specialities, but if you would like, we'll get together with you and go over our analysis.

Mr. McKEON. If you will get me a copy of that, I'll read it, and then I'll follow up with it.

Mr. BATEMAN. Mr. McHale.

Mr. MCHALE. Mr. Chairman, I thank you. I apologize. This is one of those days where I've been trying to do six things at once. I was not here for the direct testimony of the witnesses. I don't want to impose on their time by asking questions that I would suspect my colleagues have already presented, so I thank you for the opportunity to question the witnesses. For that reason, I pass.

Mr. BATEMAN. Mr. Pickett.

Mr. PICKETT. Mr. Chairman, I have the same problem not having been here, but I'm going to take a shot in the dark and ask one question. If it's been answered, just tell me, and I'll read the record. There was discussion about setting up the DBOF as separate entity, providing that cash would be transferred in and transferred out of the capital of this account only as an appropriation item.

Did that idea ever get implemented? If not, why wouldn't that be a way to get this issue under control so we don't have the DBOF being used as a grab bag? As soon as the cash begins to accumulate, it's taken out, and then when the cash is required for other kinds of requirements, it's not there?

Mr. BROCK. That's not the case, sir. The money is not appropriated.

Mr. PICKETT. I know it isn't. I said that was a proposal. Why hasn't it been adopted?

Mr. BROCK. That question should be addressed to the comptroller, but it's my understanding that the policy was for DBOF to use its pricing mechanisms to recover the costs of its goods and services.

One of the things that we propose, though, is that DBOF has been losing money every year. One of the ways they try to recover that loss is by raising prices the next year. We've recommended, in our recent report, that DOD be required to go back to Congress and seek appropriations to recover prior year losses and also give Congress an opportunity to exercise oversight by questioning DBOF why there were losses in the account.

Mr. PICKETT. OK. I think that is not a specific answer to my question, but I understand his point, and that was another question I had about the prior year losses being rolled over and put into prices of subsequent years, which is kind of a self-defeating exercise as far as operations are concerned.

Mr. BATEMAN. It troubles me how little I understand accounting, but certain things are elementary, I guess even to me, and that is that DBOF ought to be able to ascertain what it needs to charge for whatever services it renders.

But, again, it's not as simple as that. If they aren't charging enough, then in terms of current funding and availability of each of the Services of the performance to do things, they would have to pay more if they're being priced. Therefore, they'd have less money to spend. So you sort of meet yourself coming back on this thing.

Ms. HEIVILIN. One of the problems is that, even when they make these charges, we're frequently not really convinced that they're capturing the right overhead.

Recently, when we did an analysis of printing and we were comparing what it costs to print in the Department of Defense versus what it would cost to go through GPO to the private sector—we wanted to compare costs—but when I talked to our colleagues here about the accounting system, they said they were not convinced that they're capturing the overhead costs that they need to capture. So we ended up comparing the prices, the prices that were being charged. We figured that there had to be some relationship, and probably a fairly close relationship, but it's not as good as you would like it to be.

Mr. BROCK. If I could add to that very briefly? You hit on a very important fundamental point: that if you don't have accurate cost information, you really can't begin to make some very basic decisions, tradeoff decisions. Do I want to buy through a DBOF service, or do I want to purchase on the outside? Am I efficient here, or am I inefficient? And, without the accurate cost information, a lot of times you're just whistling in the dark.

Mr. BATEMAN. Here the operational commands are, the additional handicap that they don't have accurate information, but they can't go and deal with somebody else. They have to deal through DBOF.

Ms. HEIVILIN. That's the case.

Mr. BROCK. That's correct sir.

Mr. BATEMAN. Is there anyone who hasn't had their questions satisfied to this point? If not, we thank you very much for coming

here and testifying today. We will certainly ask you to be responsive to our staff as we try and look for ways that we can save taxpayers' dollars and use them more efficiently. We do thank you.

Ms. HEIVILIN. It's been our pleasure.

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DEFENSE
INFRASTRUCTURE

Enhancing Performance
Through Better Business
Practices

Statement of Donna M. Heivilin, Director, Defense
Management and NASA Issues, National Security and
International Affairs Division



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to report on the Department of Defense's (DOD) progress in reducing the defense infrastructure and improving financial management operations. DOD faces huge challenges in effectively managing its diverse operations as it downsizes its forces and activities. Critical to the downsizing process is having meaningful and reliable financial information so that DOD managers can make informed decisions. Today, I will present examples of DOD's progress in reducing the infrastructure and identify opportunities for eliminating unnecessary overhead by adopting better financial management and business practices. To the extent infrastructure resources are used inefficiently, they are not available to meet other defense needs.

BACKGROUND

According to DOD's bottom-up review, infrastructure activities accounted for \$160 billion in fiscal year 1994 (approximately 59 percent of DOD's obligational authority) and include depot maintenance, supply operations, transportation, medical treatment facilities, personnel recruiting, training, and base operations. In fiscal year 1980, DOD's budget authority in constant 1996 dollars was \$261 billion, and DOD had about 2.1 million active duty military personnel. In fiscal year 1999, DOD's budget authority in constant dollars is projected to be about \$235 billion and DOD will

have only 1.45 million active duty military personnel. That means DOD will be spending about \$38,000 more per soldier in 1999 than it did in 1980, and operation and maintenance represents 56 percent (\$21,277) of that increase per soldier.

RESULTS IN BRIEF

DOD has not reduced its infrastructure at a rate commensurate with reduced force levels. While military personnel end strength is projected to decline by 28 percent and procurement by 59 percent from fiscal year 1990 to fiscal year 1996, operations and maintenance funding for infrastructure is projected to decline by only about 13 percent. (See attachment 1 showing DOD spending by major category).

DOD has reduced its infrastructure in some areas. However, in too many cases, intended reductions have not materialized. DOD promised billions of dollars in savings through the Defense Management Report (DMR) and the Corporate Information Management (CIM) initiative, which generally have not achieved the magnitude of savings expected. As a result, scarce resources are being used to fund inefficiencies. The Defense Business Operations Fund (DBOF) has not given managers the financial information they need to make better business decisions. Regarding successes, DOD calculates that the base closure and realignment rounds in 1988, 1991, and 1993 resulted in decisions to close 15 percent of its

major domestic bases, and it projects that its recently released list of 1995 base closures and realignment recommendations will increase closures to 21 percent. Reductions in military and civilian personnel during this time have been much steeper and are slated to reach 32 percent within the next several years. In addition, DOD has achieved some inventory reductions, initiated some pilot projects, and recognized that it must improve its inventory management.

By making greater use of innovative approaches and best management practices, DOD could achieve greater cost reductions--hundreds of millions, possibly billions, of dollars, in the short term. A number of opportunities should be implemented immediately. For example, in the inventory area, operation costs could be saved if DOD established supplier parks, which could reduce wholesale and retail storage and handling costs and minimize retention of excess and obsolete inventory. Benchmarking with private sector companies and reengineering show potential for DOD to cut costs in several areas, including some finance and transportation functions. Over the longer term, tackling the management deficiencies in the defense infrastructure is a formidable challenge. Better business decisions can be made only with accurate and reliable financial information and leaders that are willing to take on the inherently painful task of changing the way business is done. Otherwise, ineffective systems will continue to undermine military force capabilities.

PROMISE OF BIG SAVINGS HAS NOT MATERIALIZEDDMR

In 1989, the DMR proposed a series of consolidations and management improvements that were estimated to save up to billions of dollars in support and overhead programs. The report resulted in about 250 decisions to implement consolidations, improve information systems, enhance management, and employ better business practices. The projected savings from individual initiatives ranged from a few million dollars to over \$10 billion. Total savings estimates for the 1991-97 period were as high as \$71 billion. However, as previously reported, tracking and validating savings to specific initiatives has proven difficult.¹ Moreover, the extent to which savings have resulted from the initiatives or from other factors, such as defense downsizing, could not be determined.

CIM

CIM, initiated about 5 years ago, is intended to reengineer common business processes across DOD by (1) implementing new or improved business methods for common functions and (2) improving the standardization, quality, and consistency of systems and data for DOD's management information systems. However, CIM has yielded marginal results to date. DOD estimated that implementation of CIM

¹Defense Management Review (GAO/NSIAD-94-17R, Oct. 7, 1993).

would save billions of dollars through reengineering and process improvements. However, as we reported previously, DOD does not know how much of the \$9 billion spent annually on automated data processing is attributable to CIM.² We also believe that DOD is making some questionable investments in systems modernization, which amounts to about \$3 billion a year. I will discuss our concerns about this later in the testimony. Last year, following this Subcommittee's initiative, Congress directed DOD to take actions to mitigate CIM's high risk. DOD was to respond to you on March 15, 1995.

One of the techniques that DOD is using to accomplish CIM objectives is reengineering, which, in brief, calls for organizations to critically evaluate their key activities (called processes) that span across the entire business, use integrated (cross-functional) teams to redesign processes to eliminate unnecessary or nonvalue-added tasks, and then, lastly, acquire or develop technology to implement the redesigned process. Our ongoing work on the reengineering practices of some private sector companies demonstrates that reengineering has been used successfully by businesses as they have attempted to become more competitive in the global marketplace in a downsizing environment.

²Defense Management: Stronger Support Needed for Corporate Information Management Initiative to Succeed (GAO/AIMD/NSIAD-94-101, Apr. 12, 1994).

Contrary to private sector reengineering practices, DOD has primarily focused its efforts on trying to pick the best of its existing automated systems and standardizing their use across the military components prior to redesigning the process. As we previously reported, we believe that selecting technology alone creates the risk that DOD may be wasting money modifying and implementing systems to support old, inefficient ways of doing business.³ DOD believes that selecting a common set of business information systems is necessary to make functional integration and interoperability possible so that all DOD activities can work together more efficiently and effectively.

While there are improvement initiatives taking place throughout DOD, many tend to be incremental efforts being developed in isolation from other efforts and do not offer the type of dramatic improvement that is possible through reengineering. In addition, CIM is just one of the many management improvement initiatives in DOD, and it is difficult to determine whether a change relates to CIM or other efforts, such as base closures, acquisition reform, or the Defense Performance Review. Furthermore, the Secretary of Defense, in a September 1994 memorandum, challenged each department and agency to take a fresh look at their high payoff processes and develop--through reengineering techniques--truly innovative approaches to the performance of missions and functions. However,

³Defense Management: Impediments Jeopardize Logistics Corporate Information Management (GAO/NSIAD-95-28, Oct. 21, 1994).

the stewardship for this new initiative is the Director of the Defense Performance Review. This further confuses CIM's reengineering mission and may contribute to functional managers' view that CIM is primarily an information technology initiative as we stated previously in the logistics CIM report (see footnote 3). We are also concerned that overlapping or conflicting initiatives consume valuable resources that are needed to implement and integrate improved DOD-wide business processes.

CREDIBLE FINANCIAL INFORMATION IS KEY TO ANALYZING
INFRASTRUCTURE REDUCTION OPTIONS

We recently identified DOD's financial management as a high-risk area in the federal government.⁴ We characterized DOD's financial management operations as "the worst in government and the product of years of neglect." In presenting the fiscal year 1995 budget, Secretary of Defense Perry said, "Our financial management . . . is a mess, and it is costing us money we desperately need." Part of the problem can be attributed to DOD's operating a myriad of nonstandard financial systems. For example, during a 6-month period, hundreds of contractors returned about 4,000 checks totaling \$751 million, of which \$305 million was in overpayments. The overpayments were voluntarily returned by the contractors. In addition, we have reported financial management weaknesses in DBOF that will hinder DOD's efforts to identify and reduce its operating

⁴High-Risk Series: An Overview (GAO/HR-95-1, Feb. 1995).

costs. Specifically, DBOF deficiencies affect Defense managers' ability to identify how much existing processes cost; thus, managers can only estimate the cost or use unit costs that cannot be verified. Without accurate and reliable information, it is difficult to compute exactly what new processes will cost and whether the savings are worth the effort.

DBOF

Designed to give managers the financial information they need to make better business decisions, DBOF is not working as intended. A key element in reducing the cost of operations is the ability to accurately identify total costs. However, DOD lacks the management tools to accomplish this task. We recently reported that DOD has not adequately managed the Fund's cash, improved the accuracy and reliability of the Fund's systems, and improved the Fund's monthly financial reports.⁵ These concerns are described in more detail below.

Since the Fund was established, its cash balance has been centrally managed by the Office of the Secretary of Defense (Comptroller). On February 1, 1995, DOD returned the management of the Fund's cash to the military service and DOD component level. This policy change is a major departure from the benefits of a single cash

⁵Defense Business Operations Fund: Management Issues Challenge Fund Implementation (GAO/AIMD-95-79, Mar. 1, 1995).

balance DOD cited in establishing the Fund. In the March 1991 Defense Business Operations Fund Overview Book on the budget, DOD informed the congressional defense committees that "combining previously separate appropriations into one account, united by support and business function aspects, allows lower total fund balances through a form of self-insurance not previously available. Operation fund balances for the former stock and industrial funds are significantly reduced in this budget." However, DOD began experiencing cash shortages in June 1993 and decided to advance bill customers to avoid a negative cash balance. The policy change could further exacerbate the Fund's cash problems. While this change returns to the old way of doing business, where each service had separate stock and industrial funds, now each service has one fund plus a DOD-wide and an Office of the Secretary of Defense corporate fund. We believe DOD should reverse this cash management policy. Maintaining the accountability for cash management at the Office of the Secretary of Defense level would reduce the amount of cash needed to operate the Fund.

One of the primary challenges still confronting DOD is the improvement and standardization of DBOF's financial systems. Currently, about 80 disparate and unlinked systems are producing accounting data that is not accurate and reliable. Accurate cost data are critical to develop a systematic means to reduce the cost of operations. The 17 systems recommended as interim migratory financial systems for DBOF will cost \$94.5 million, according to

DOD, to enhance them to meet minimum functional requirements. However, this cost does not include the following significant items: (1) improvements needed to meet the minimum technical requirements; (2) data conversion from the existing systems to the interim migratory systems; (3) development of interfaces with nonfinancial systems, such as logistics and personnel, that generate most of the financial data; (4) training of personnel who will operate and enter data into the interim migratory system; and (5) replacement of 63 existing systems with the interim migratory systems. Given the magnitude of the total cost to upgrade the systems, the DOD Comptroller should not expend funds, except for normal routine maintenance, to enhance the existing Fund systems until a functional economic analysis is prepared for each of the recommended Fund interim migratory systems.

DOD's plan for improving Fund operations identifies a number of actions aimed at improving the accuracy of the financial reports, including revising the monthly report of operations. Officials responsible for completing the new report said that it could not be properly prepared because current financial systems did not contain or accumulate all the necessary data. As a result, the centers had to manually input data. DOD components need to work together and agree on the actual sources of information to be used to produce the financial reports and prepare audited financial statements for each of the Fund business areas.

OPPORTUNITIES TO REDUCE INFRASTRUCTURE AND IMPROVE SERVICE

Infrastructure reductions, particularly in high cost areas like depot maintenance, inventory, and finance, have not kept pace with the force downsizing. This is critical, since the savings derived from reducing infrastructure can be used for higher priority defense needs. Thus, reductions in these areas need to be aggressively pursued to achieve the necessary dramatic gains in improving defense operations. I would first like to address some major areas that would yield savings over a longer term and then address those that show more immediate opportunities for savings.

Longer Term Opportunities for SavingsBase Closures

DOD anticipates that the realignment and closure of military bases and facilities will result in significant savings. However, opportunities have not been fully realized, particularly in the 1995 round. Since 1988, DOD has decided to fully or partially close 70 major domestic bases and to close, realign, or otherwise downsize scores of other bases, installations, and activities through the base closure and realignment process. DOD's goal for the 1995 round was to reduce the overall DOD domestic base structure by at least 15 percent of DOD-wide plant replacement value--an amount at least equal to the three previous base closure

rounds. DOD projects that its recently released list of 1995 base closures and realignments will increase the percentage to 21 percent, not the 30 percent that would have been required to meet its goals. The 1995 recommended closures and realignments are fewer than expected, and the need for more closures in years ahead is likely.⁶ In addition, DOD estimated that it would realize \$4.1 billion in property sales revenue from military bases closed under the 1988 and 1991 base realignment and closure rounds. In 1994, DOD reduced this estimate to \$1.2 billion. Revenue from property sales is to be used to help pay for the base closure costs. Property sales had produced revenues of \$69.4 million; an additional \$22.2 million is expected from pending sales.⁷

Depot Maintenance

DOD's depot management structure has not resulted in substantial competition, interservicing, or reduction of excess capacity and duplication of effort.⁸ Each service maintains its own depot maintenance structure that provides for major overhaul of parts, rebuilding parts and end items, modifying systems and equipment by applying new or improved components, and manufacturing parts

⁶Military Bases: Challenges in Identifying and Implementing Closure Recommendations (GAO/T-NSIAD-95-107, Feb. 23, 1995).

⁷Military Bases: Reuse Plans for Selected Bases Closed in 1988 and 1991 (GAO/NSIAD-95-3, Nov. 1, 1994).

⁸Depot Maintenance: Issues in Management and Restructuring To Support a Downsized Military (GAO/T-NSIAD-93-13, May 6, 1993).

unavailable from the private sector. In May 1994, the Deputy Secretary of Defense directed the Secretaries of the Navy and Air Force to work together to consolidate the services' workloads, reduce excess capacity, use the most proficient DOD depot to perform depot maintenance, and strongly consider joint depot management and joint operations alternatives. No such results were achieved. Furthermore, few cross-servicing solutions are being forwarded in the 1995 base closure process. Eliminating additional excess capacity and unnecessary duplication and more cost-effectively managing DOD's depot maintenance operation will continue to be issues.

Inventory

For more than a decade, leading businesses have been streamlining inventory processes and stocks on hand to reduce overhead, increase responsiveness, and cut unnecessary carrying costs. DOD has begun to take advantage of this opportunity, which I will discuss later. However, much work still needs to be done. We continue to designate inventory management as a high risk area. DOD's excessive inventories of unneeded items have resulted largely from a culture that believed it is better to overbuy items than to manage with just the amount of stock needed. DOD often stores inventories in as many as four different layers between suppliers and end users. Storing inventory in multiple layers results in inventory that turns over slowly and produces large amounts of old,

obsolete, and excess items. In September 1993, DOD reported that its secondary inventory was valued at \$77.5 billion. However, of that amount, about \$36.3 billion in inventory was not needed on hand to support DOD's war reserves or current operating requirements. DOD has wasted billions of dollars buying supplies that have become excess, burdened itself with maintaining them, and failed to acquire the tools or expertise needed to manage them effectively. This culture has been slow to adopt new management practices, technologies, and logistics systems that would result in storing only those items necessary to support operations. DOD has also failed to provide its personnel with the tools and incentives to manage the inventory properly.⁹

Furthermore, DOD continues to lack financial accountability and control over its inventory because it (1) does not have accurate, reliable data to support the quantity, condition and value of items and (2) does not have integrated systems to provide accurate data. DOD recognizes these weaknesses and is taking some corrective action.

Information Technology Management

Reengineering and modern technology offer huge opportunities to reduce defense costs and improve the quality of service. While

⁹High-Risk Series: Defense Inventory Management (GAO/HR-95-5, Feb. 1995).

CIM, as previously mentioned, was intended to harness this area somewhat and steer efforts toward a common purpose, information technology management remains such a growing concern that we added a new category--information systems modernization efforts--to our own list of high-risk areas that we monitor. DOD has invested heavily in costly information systems, within and outside the CIM umbrella, that have failed to produce dramatic service improvements or significant reductions in costs. While well-intentioned system modernizations are underway across DOD, many are at great risk due to the failure to use technology to simplify and reengineer processes in ways that reduce costs, increase productivity, and improve service.¹⁰ For example, in our ongoing work we noted that DOD is developing the Depot Maintenance Standard System to support its efforts to streamline depot maintenance operations and manage resources more effectively at its repair depots. However, implementing the system, if successful, will provide only incremental improvements that are expected to reduce depot maintenance costs by less than 2.5 percent over a 10-year period. Because DOD does not plan to reengineer depot maintenance processes until after the Depot Maintenance Standard System is fully deployed, it has delayed achievement of potential improvements for at least 8 years.

¹⁰Government Reform: Using Reengineering and Technology to Improve Government Performance (GAO/T-OCG-95-2, Feb. 2, 1995).

Near Term Opportunities for Savings

Our work also shows a number of areas where DOD could reduce infrastructure costs and improve the quality of service in the near term by adopting new business practices and improving its use of information technology. DOD needs to aggressively pursue alternatives such as outsourcing, using civilians in place of military personnel, and cutting layers of unnecessary overhead.

Finance

In 1991, DOD created the Defense Finance and Accounting Service (DFAS) to strengthen its financial management operations and to achieve savings by standardizing, consolidating, and streamlining finance and accounting policies, procedures, and systems. DFAS has explored several consolidation initiatives and recently announced plans to consolidate over 300 defense accounting offices into 5 large existing finance centers and 20 new sites called operating locations. If successful, the consolidation will allow DFAS to reduce finance and accounting personnel in DOD from 46,000 to about 23,000. According to DFAS, consolidation alone, however, will not result in these productivity gains, it must also reengineer and standardize its processes and systems so that it needs fewer people to perform finance and accounting functions.

In our ongoing work we noted that DOD's decision to create 20 new operating locations may result in a finance and accounting infrastructure that is larger than necessary. Under a previous consolidation initiative, for example, DOD planned to consolidate all accounting and finance activities into 5 large centers. More recent DOD analyses indicate that the 5 large centers plus 6 additional operating locations would be sufficient. DOD decided against this option, however, because it reasoned that 20 small offices (with about 750 people each) could be opened rather quickly. This would allow it to transfer the workload from the 300 defense accounting offices and begin to realize budgetary savings sooner than other alternatives. Even though DOD might save money in the short term, our preliminary analysis shows that the current consolidation plan will require up to 3,500 more personnel, cost \$2.8 billion (net present value) more to operate over the next 20 years, and require about \$173 million in military construction funding in fiscal years 1997, 1998, and 1999.

We also noted that DFAS is attempting to achieve productivity improvements by standardizing and improving some of its financial management systems and processes. It also plans to reengineer these systems and processes some time in the future but not until the consolidation is complete and the standard systems and processes are operational. As a result, DFAS will likely achieve some productivity gains but not to the extent possible if reengineering were more of a priority. For example, under DFAS's

current civilian payroll operations, each employee handles about 684 pay accounts. Once DFAS standardizes its civilian pay systems, it expects that each employee will be able to handle about 1,800 pay accounts each. While this is a substantial productivity gain, private sector companies that have aggressively reengineered their employee pay functions average about 3,000 pay accounts each. If DFAS could achieve this level of productivity, the number of employees needed for civilian payroll functions could be reduced by an additional 470 people. This would save DFAS about \$16 million more in annual operating costs and possibly reduce the number of locations needed to perform civilian pay operations.

Finally, DFAS has not yet selected standard systems for several of the finance and accounting functions that it plans to put at the 20 new operating locations (e.g., general funds accounting, vendor pay, travel). As a result, the consolidation will likely perpetuate many of the old, inefficient, and unneeded processes; lock DOD into ways of doing business that may not serve future operations; and result in a larger finance and accounting infrastructure than necessary. Coupled with the fact that most of the DFAS employees at these locations will be new hires, it is unlikely that any real productivity gains can be achieved in these locations for some time.

Benchmarking the DFAS freight payment process may also provide additional opportunities to save money. We previously reported

that DFAS's unit cost of \$5.70 per bill for freight payment services was high compared to third-party logistics firms that could provide a similar service.¹¹ Two firms proposed to perform freight payment (freight bill processing, pre-auditing, verifying, and generating management reports with payment) for DOD at a cost ranging from \$0.75 to \$1.25 per government bill of lading, depending on whether the freight bills were transmitted on paper or electronically.

Modernization Systems

Under the CIM initiative, DOD has focused on trying to pick the best of its existing automated systems and standardizing their use across DOD. Furthermore, in October 1993, DOD adopted an accelerated implementation of this "migration" strategy. Specifically, DOD was to select migration systems within 6 months and transition to these systems over the next 3 years DOD-wide. Despite the priority given to this initiative, the military services and Defense agencies have yet to complete the necessary implementation plans and the technical and economic assessments showing how DOD's fiscal year 1996 information technology modernization request of about \$3 billion will be spent, including DOD's return on investment. Consequently, we believe DOD's request for modernization systems represents a high-risk investment.

¹¹Defense Transportation: Commercial Practices Offer Improvement Opportunities (GAO/NSIAD-94-26, Nov. 26, 1993).

Transportation

Numerous studies by DOD, commissions, even the U.S. Transportation Command (TRANSCOM) have reported that the structure of the transportation system is fragmented and inefficient. Traffic management processes and automated systems were developed independently for each mode of transportation. The entire defense transportation system was built along service and modal lines--the Army's Military Traffic Management Command for land transportation and port operations, the Navy's Sealift Military Command for sealift; and the Air Force's Military Airlift Command (now the Air Mobility Command) for airlift. In 1987, TRANSCOM was established to unify defense transportation under a single manager during war and to resolve problems inherent in having several managers controlling DOD cargo. It was not until 1993, however, that DOD designated TRANSCOM as the single DOD manager of the Defense Transportation System in both peace and war. Today, TRANSCOM finances over \$5 billion of transportation expenses, which includes overhead. However, the current structure of separate component command headquarters and a worldwide field structure has remained essentially unchanged since the formation of TRANSCOM. Transportation services that the military component commands have traditionally provided, such as port handling and intermodal transfers, are being handled primarily by commercial carriers. Component field offices are part of an antiquated system that moved cargo by separate modes and required on-site personnel at modal

transfer points. This extensive infrastructure is costly. For example, a military customer is charged \$2,624 for a shipment from New Jersey to Rotterdam, Netherlands; yet a commercial carrier charges \$1,553 for the shipment. The added cost to the customer of \$1,071 (or 69 percent of the carrier's charge) represents the overhead amount charged to the customer.

TRANSCOM recognizes that it needs to reengineer the transportation system and achieve its goal to develop a fully integrated, joint, intermodal transportation system, maximizing support to its customers, and is actively engaged in a reengineering initiative. However, TRANSCOM may not realize its vision unless it addresses its organizational structure. In addition, the success of the reengineering effort relies heavily on its ability to field an integrated and global defense transportation information system. Under the CIM initiative, TRANSCOM's Joint Transportation CIM Center is identifying systems for development and enhancement and is recommending reducing 120 systems to 23 migration systems or less by 1997. However, standardization of systems is taking place prior to reengineering transportation processes, which could perpetuate inefficient and unneeded processes. TRANSCOM's reengineering implementation plan states that it will conduct a future review of all defense transportation system organizations, including an assessment of the role and requirement for transportation component command and subordinate commands. While our work is incomplete at this time, we believe fixing the

organizational structure is a mandatory first step to address the fragmented transportation system and substantially reduce transportation costs.

Printing

The Defense Printing Service is DOD's single manager for printing and duplicating operations. It was established in April 1992 when the printing-related operations of the military services and defense agencies were consolidated. The Defense Printing Service sends the majority of its printing work to private vendors on contract to the Government Printing Office and maintains most of its duplicating work in-house. Our work showed that larger printing and duplicating jobs (those over \$500) are generally less expensive through contracting, while the smaller jobs are less expensive when produced in-house. We believe more can be saved (\$20 million to \$30 million) by contracting out additional work, assuming suitable term contracts can be established with private vendors. The Defense Printing Service has identified at least \$80 million of in-house work that could be contracted out without adversely affecting its mission.

Hardware Inventory

The Defense Logistics Agency's (DLA) adoption of best practices for reducing consumable items is the least advanced for hardware items

which represent 77 percent of DLA's total inventory. (See attachment 2, showing DLA commodities). Although DLA is examining the potential application of some commercial practices for hardware items, DLA's progress is slow and results are limited. As we previously reported, the private sector has applied innovative practices at industrial centers, where it uses large quantities of consumable hardware items such as bearings, valves, and fasteners to maintain and repair its equipment.¹² According to private sector officials, these items offer the greatest opportunity for reduction because they are generally standard, used in large quantities, and are commonly stocked by several suppliers. Through a supplier park concept, private sector companies have significantly reduced similar types of inventories and the costs to manage and store them. For example, two companies we examined--PPG Industries and Bethlehem Steel--have used supplier parks and other similar concepts to eliminate as much as 80 percent of their consumable item inventories. In addition, these companies estimate that they have saved millions in related operating costs.

DLA recently began a study to examine the applicability of using supplier parks or similar techniques at service maintenance and repair facilities. Like the private sector, DOD operates industrial facilities that use large quantities of consumable items to repair and maintain its aircraft, land vehicles, and ships. A

¹²Commercial Practices: DOD Could Save Millions By Reducing Maintenance and Repair Inventories (GAO/NSIAD-93-155, June 7, 1993).

significant portion of DLA's inventory is invested in these items. For example, in 1992, DLA had invested over \$2 billion in bearings, tubes, hoses, valves, nuts, and bolts. By using supplier parks, DOD could shorten the time end users need to order and receive items to a few hours. In doing so, DOD would reduce both wholesale and retail storage and handling costs and minimize the retention of excess and obsolete inventory. The result would be a reduced need of on-hand inventory and warehouse space.

Civilians in Military Support Roles

Thousands of military personnel perform support functions, such as personnel management and data processing, that are typically performed by civilians and do not require skills gained from military experience. We previously reported that using civilians for such functions could reduce peacetime personnel costs and/or release military members for more combat-specific duties.¹³ Cost differences between military and civilian personnel in peacetime support functions vary by pay grade; however, on average, a civilian employee costs about \$15,000 less per person per year than a military person. Our preliminary analysis shows that over \$2 billion a year could be saved in personnel costs if the services eliminated about 148,000 military positions and used civilian employees in support positions in 24 occupational specialties. The

¹³DOD Force Mix Issues: Greater Reliance on Civilians in Support Roles Could Provide Significant Benefits (GAO/NSIAD-95-5, Oct. 19, 1994).

148,000 military positions would result if all the services achieved a civilian-to-military personnel ratio equal to the service with the highest ratio. The ratios vary depending on the job specialty and range from 18 percent in the Army for food service personnel to 100 percent in the Navy for motor vehicle operators. Additional savings could be achieved if more civilians were used in specialties other than the 24 we examined.

Contractor Personnel

DOD civilians as well as contractor personnel can play important roles in deploying to theaters of operation. Civilian employees and contractor personnel have historically supported the military forces in wartime theaters of operation. DOD reports that over 5,000 DOD civilian employees and nearly 9,200 contractor personnel voluntarily deployed to the Persian Gulf area to support the military forces during the Gulf War. While some administrative problems were associated with these deployments, DOD did not indicate such deployments were a bad idea--only that proper planning is required. During the Cold War, U.S. plans of support in a European theater of operation included reliance on host nation support, some of which was from civilians. In today's environment, with a less clear threat and a greater potential for military actions to occur in what are known as immature theaters of operation where support capabilities must be installed, host nation support is less of an option.

ADOPTION OF BETTER BUSINESS PRACTICES IS ESSENTIAL
TO REDUCING INFRASTRUCTURE

An efficient set of business operations supporting this vast and diverse infrastructure is critical to getting the most from the dollars spent on readiness. Otherwise, ineffective systems will continue to use dollars that could be spent on other military force capability needs. DOD generally agrees that it could lower costs and reduce inventories, for example, by using commercial practices. DLA has improved its management of some commodities by adopting better business practices. DLA began making improvements in the way in which it bought and stored inventory to compete with private sector logistics systems. DLA's traditional system contained high overhead charges, and supplies were often not delivered to the customer in a timely, cost-effective fashion. As a result, military medical treatment facilities bought as much as 50 percent of medical supplies from sources outside the DLA distribution system. DLA realized that it needed to change the way it did business and decided to use commercial distribution networks, or "prime vendors," to regain lost customers and sales. Prime vendors substantially reduced the need for DOD to store and distribute inventory to its approximately 150 hospitals and medical treatment facilities nationwide, reduced logistical costs, and improved customer service. (See attachment 3, showing process improvements using the prime vendor program). Since September 1991, DLA has reduced wholesale medical inventories by \$365 million, partially

due to the prime vendor program (\$49 million) and elimination of obsolete and unnecessary inventories (\$316 million). In addition, DLA is implementing a pilot program to have private sector food distributors deliver food directly to dining facilities rather than to defense storage facilities. Through this change, DLA anticipates about a 75-percent decline in peacetime inventory levels and improved customer service.

Elements of Successful Reengineering

Many of the reasons for success in DLA's initiatives we also found in our work on how the private sector achieves radical change.¹⁴ Private sector experience points to reengineering as an effective way to streamline management processes. Generally, successful steps in reengineering include a thorough understanding of an organization's customers, their needs, and the environment; top management, usually the chief executive officer, recognizes the need for change; the top managers define the strategic business case for change, including a return on investment; and reengineering efforts are focused on process instead of functions.

Since reengineering is inherently painful for the organization, top management must be committed to it and willing to demonstrate its commitment in order for reengineering efforts to succeed. Top

¹⁴Reengineering Organization: Results of a GAO Symposium
(GAO/NSIAD-95-34, Dec. 13, 1994).

management also promotes organizational efficiencies: limiting duplication of efforts between functions; resolving cross-functional conflicts, which are inherent in an effort of this type; spreading lessons learned throughout the organization; and ensuring the effort is aligned with and tied to strategic and business goals.

In implementing the prime vendor program, for example, DLA established a high sense of urgency and was able to begin making changes in a relatively short time. DLA officials estimated that it took about 10 months to establish the first prime vendor program in the national capital area and about 2 years to expand the program to all of its medical treatment facilities nationwide. In addition, the commitment and involvement from top management effectively removed barriers to accomplish these changes.

While there are pockets of successful efforts, DOD has not consistently been able to make significant progress in other critical areas. Making change seriously challenges entrenched bureaucracies and longheld beliefs and values.

COMMITMENT TO CHANGE IS NEEDED TO REALIZE SAVINGS

The funding for infrastructure activities is substantial. For example, 5 percent of the \$160 billion defense infrastructure represents about \$8 billion in purchasing power that equates to

(1) almost twice the cost of the CVN-76 aircraft carrier (estimated at \$4.6 billion) or (2) about 6 times the cost of the sixth Milstar satellite (estimated at \$1.3 billion).

Having said that, I would like to add that DOD needs to be realistic in determining what it can accomplish in reducing infrastructure and avoid making projections and savings estimates that cannot be substantiated as it has in the past with CIM, for example, and again in estimating its future years budget needs. As we recently reported, our review of the 1995-99 future years defense program revealed a substantial amount of risk that has resulted in overprogramming.¹⁵ Overprogramming occurs by overstating savings and understating costs and includes more programs in the future years defense program than spending plans will support. Such a practice can obscure defense priorities and delay tough decisions and trade-offs.

We believe there are opportunities to save money by "outsourcing" or privatizing some of the non-core functions that DOD is currently handling, especially those functions where there is a competitive commercial market. However, each one of these areas would need to be looked at and analyzed individually to determine how much if any could be privatized consistent with the requirements of various laws and regulations. While turning these areas over to the

¹⁵Future Years Defense Program: Optimistic Estimates Lead to Billions in Overprogramming (GAO/NSIAD-94-210, July 29, 1994).

private sector in whole or in part may potentially save the government money, it can also pose some risk that needs to be recognized. First, the readiness implications need to be considered to ensure that there would be no adverse impact. Second, economic analysis needs to be conducted to determine that the change would not cost DOD more money and would in fact save money. For example, if there is excess capacity at a depot that is privatized, then turning more of the workload over to the public sector would increase the overhead cost of the organic depots for the work that remains. Finally, DOD would need to exercise strong management over the selection and monitoring of contractors to ensure that the commercial provider met specific performance targets.

In a February 1995 speech before the American Defense Preparedness Association, the Chairman of the Commission on the Roles and Missions of the Armed Forces stated: "One thing is very clear today: DOD must change." We agree wholeheartedly with that statement. One way to change is through business process reengineering, which can achieve dramatic cost, quality, and customer service by making fundamental changes in a way an organization defines its mission and performs its work. Reengineering typically involves undertaking a risky, innovative venture, which is not generally encouraged within the federal government. Federal managers have little or no incentive to make difficult and personally disruptive changes that are associated

with reengineering, particularly if their budgets will be reduced by the amount of projected savings. DOD and Congress need to work more as partners to involve the services and defense agencies in the change process and convince them through some type of incentive that savings from improvements will be used to enhance DOD's business functions or military capabilities.

Mr. Chairman, this concludes my testimony. We would be glad to answer any questions that you or other members of the Subcommittee may have at this time.

(709133)

DOD Spending by Major Category

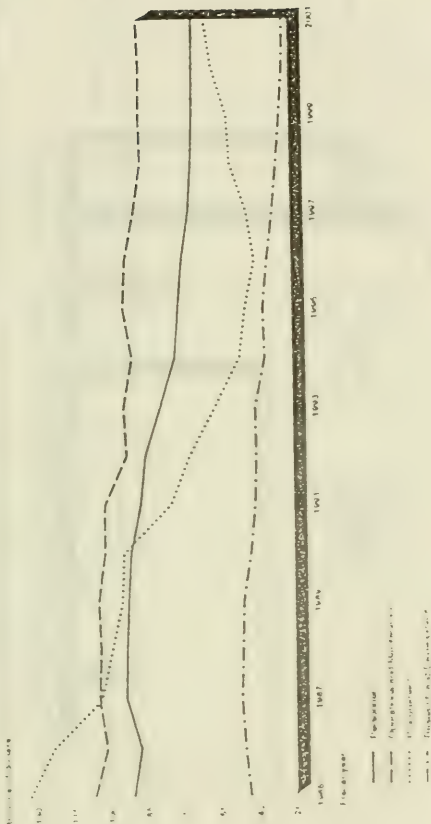
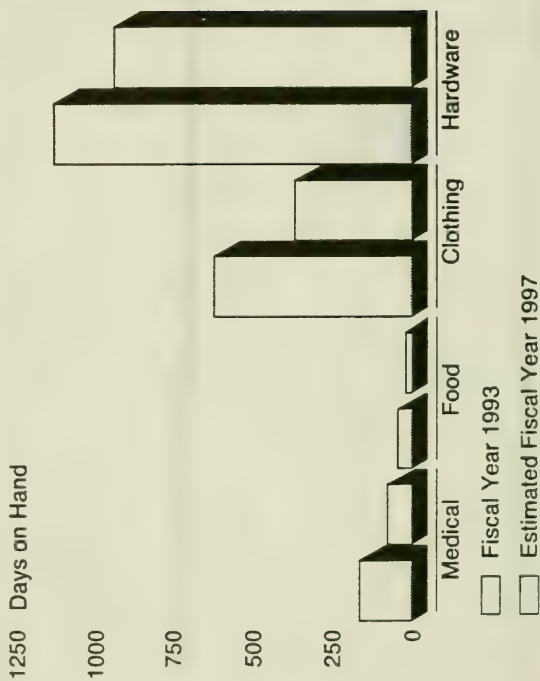


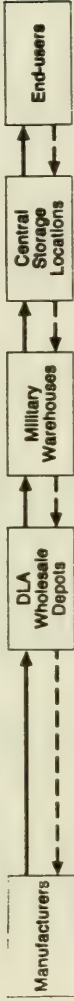
Figure 1: DOD Spending by Major Category, 1986-2001

GAO All DLA Commodities

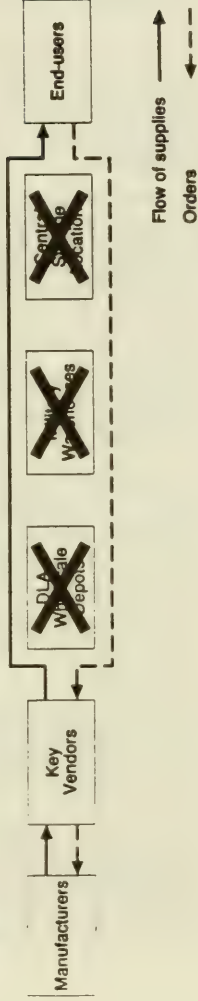


GAO Recommended Process Improvements

Traditional Logistics System



"Best" Commercial Practices



Flow of supplies →
Orders - - -

Subcommittee on Military Readiness
House Committee on National Security

March 23, 1995 Hearing on
DEPARTMENT OF DEFENSE SUPPORT INFRASTRUCTURE

Questions for the General Accounting Office

MANAGEMENT

QUESTION 1: In its February 1, 1995 report to the congressional Defense committees, DOD stated that it had made "tremendous progress in rectifying or reducing many of the problems in the Plan." Do you agree with DOD's assessment?

RESPONSE: We disagree with DOD's assessment. After more than 3 years of operations, very little has changed in the day-to-day operations of the Fund. Much work remains to be done with correcting the fundamental problems with the Fund's systems and financial reports. Specifically,

- DOD does not have a systematic process in place to ensure that the Fund's policies are implemented consistently. Consequently, Fund managers lack the necessary guidance to execute day-to-day operations of the Fund.
- DOD has selected most of the Fund's interim migratory systems without first determining the total estimated cost to enhance and implement these systems across the Fund's business areas.
- DOD is still having difficulty preparing accurate financial reports on the Fund's operations. For example, the monthly reports show negative balances of hundreds of millions of dollars for certain accounts such as inventory, accounts receivables, and revenue.
- DOD has reversed its cash management policy by returning cash control to the DOD components. This is a major departure from the benefit of a single cash balance that DOD cited when it established the Fund.

Correcting the Fund's fundamental problems with the financial systems will require a long-term effort. In the meantime, it is especially important for DOD to also pursue short-term, building block efforts to begin improving the accuracy of the Fund's financial

information. Considering the past difficulties DOD has experienced in implementing the Fund, it is essential that top management is committed to improving the Fund's systems.

QUESTION 2: In your opinion, what actions must DOD undertake to improve the operations of the Fund?

RESPONSE: The following actions would help improve the operations of the Fund:

- Direct DOD to reverse its February 1995 cash management policy. Maintaining the accountability for cash management at the OSD level would reduce the amount of cash needed to operate the Fund.
- Direct DOD not to recover prior year losses by increasing the prices charged customers. DOD should seek a separate appropriation and be required to identify the reasons for losses and actions underway or planned to preclude such losses from occurring in the future.
- Direct DFAS headquarters, the DFAS Centers, and the DOD components to work together and agree on the actual sources of information to be used to produce the financial reports.
- Direct the DOD Comptroller not to expend funds, except for normal routine maintenance, to enhance the existing Fund systems until a functional economic analysis is prepared for each of the recommended interim migratory systems.

QUESTION 3: Does GAO continue to support the intent of the Defense Business Operations Fund?

RESPONSE: If the Fund is operated in an efficient and effective manner, it can contribute to a significant improvement in DOD operations. However, DOD continues to face serious problems that have hindered the operation of the Fund. The Fund's primary goal is to focus the attention of all levels of management on the total costs of carrying out certain critical DOD business operations and the management of those costs. Better information on business operations should enable DOD management and the Congress to make more informed policy decisions as DOD continues to adapt to a much smaller force structure and a new world environment. Accomplishing these objectives will require DOD

managers to become more conscious of operating costs and make fundamental improvements in how DOD conducts business.

QUESTION 4: What action should the Congress take regarding the operation of the Fund?

RESPONSE: We believe the Congress should have annual oversight hearings on the \$77 billion Fund as a means of monitoring DOD's progress in improving the operations of the Fund. It must be realized that Defense is dealing with years of neglect in regard to its financial management structure and its going to require a long-term commitment to correct these problems. Defense should be prohibited from adding any new activities or functions to the Fund until the policies, procedures, systems, and financial reports are in place to accurately account for and report on the activities that are currently in the Fund.

CASH

QUESTION 5: Since the Fund was established, its cash balance has been centrally managed by the Office of the Secretary of Defense (comptroller). In February 1995, DOD reversed its cash management policy and placed the management of cash at the military service and DOD component level. What is GAO's view on this action?

RESPONSE: This policy change is a major departure from the benefits of a single cash balance that DOD cited in establishing the Fund. In our prior testimony before this Subcommittee, we pointed out that by consolidating the cash balances of the old industrial and stock funds, DOD reduced by several billion dollars the Fund's cash requirement needs. DOD's action may increase the Fund's cash requirements and, therefore, increase the need for appropriated funds to implement the change or the continued advance billing of customers.

QUESTION 6: The Fund has been advance billing customers since June 1993. What are DOD's plans for eliminating the advanced billing?

RESPONSE: In July 1994, DOD (1) stopped the advanced billing of all activities except the Naval shipyards and research and development activities and (2) planned to eliminate the advance billing in January 1995. However, as of now, the Navy is continuing to advance bill its customers. Further, the Air Force and Army

have started to advanced billed again because of the change in DOD's cash management policy.

QUESTION 7: If the Fund had not advanced billed its customers, what would the Fund's cash balance? In addition, what is GAO's view on the Fund advance billing its customers?

RESPONSE: At the end of February, DOD has advance billed customers about \$5.2 billion. If the Fund had not advanced billed customers, the Fund's cash balance at the end of February 1995 would have been about a negative \$1.4 billion.

With regards to the Fund advance billing its customers, we believe that advance billing is a stopgap measure and not a sound business practice. Eventually, the Fund will have to stop advance billing its customers. At that time, the Fund will have to perform work on orders, such as repairing aircraft, for which the Fund will not receive any money for this work since they have already advanced billed its customers. But, the Fund will still be incurring expenses such as salaries. In essence, by advance billing customers, the Fund has mortgaged the future.

PRICES

QUESTION 8: Prior to the Fund, each of the services ran its own stock or industrial fund. With the creation of the Fund, has there been any change in how Defense sets prices?

RESPONSE: The Comptroller always had oversight responsibilities over the military services' financial matters, such as providing policy on accounting issues and was also involved in determining the prices set by the existing revolving funds during the budget review prices.

The manner in which the rates are set today for industrial fund activities is not any different than how they were set prior to the implementation of the Fund. Prior to the Fund, the rates to be charged customers were initially developed by the industrial fund activity based on guidance received from its parent command and OSD. The proposed rates were reviewed and adjustments made during the review process and the approved rates were incorporated into the President's budget. Today the exact same process is followed for the industrial fund activities.

Since fiscal year 1991, DOD has made two significant changes to the supply management business area. Beginning in fiscal year 1991, DOD included support costs, such as civilian personnel salaries, in the supply management business area. Second, prior to fiscal year 1993, DOD required that the supply management business area maintain a certain level of cash with the Treasury. To develop prices, DOD managers needed data on the supply management business areas' estimated cash balance, estimated collections from inventory sales, and estimated cash disbursements. To accommodate fluctuations in cash received from customers and payments made to purchase or repair inventory items and to maintain a certain level of cash, DOD factored in a surcharge, to the acquisition cost of inventory items in setting prices.

In fiscal year 1993, DOD changed the price setting policy for the supply management business area from the cash basis to a cost basis--similar to the depot maintenance business area--and is to recover the full costs of its operations and operate on a break-even basis. Prices are determined by adding a surcharge for all the support costs, such as civilian and military personnel salaries and depreciation, to the cost of material sold to customers.

QUESTION 9: Why does GAO object to the recovery of prior year losses in the rates charged customers?

RESPONSE: Defense's pricing policy provides that prices will be increased to recover prior year losses. DOD increased fiscal year 1995 Fund prices by \$1.7 billion to recover prior year losses. This policy is inconsistent with a basic tenet of the Fund--that prices should reflect the actual cost incurred in providing goods and services. Increasing prices to cover past losses diminishes the incentive for the Fund to operate efficiently and makes it difficult to evaluate and monitor the Fund's status. Charging prices that reflect only the cost expected to be incurred for that period will enable Defense and the Congress to determine the cost of each year's operations and measure the performance of the Fund's activities for that period. Defense should be required to justify recovering prior year losses as part of the appropriation process. The justification should identify the specific reasons why a business area, such as depot maintenance incurred a loss, and the actions being taken to avoid similar losses in the future. This approach would give the Congress an opportunity to review the Fund's operation, determine

if additional funds are actually needed, and evaluate the effectiveness of DOD's management of the Fund. It would also provide a strong incentive to properly set prices and would help focus attention on the current costs of operations.

QUESTION 10: In fiscal years 1992, 1993, and 1994, the Fund experienced losses of several billion dollars. Where similar losses prevalent prior to the Fund being established in October 1992?

RESPONSE: Our reports on the Army, Navy, and Air Force industrial funds identified serious financial management weaknesses. The reports cover the three fiscal years prior to the Fund being established in October 1991. The depot maintenance activities incurred losses of over \$1.1 billion because they did not recover the cost incurred in providing goods and services to customers. These losses clearly suggest that the industrial funds have not achieved the objectives DOD intended when they were established. These losses should have served as an indicator to management that the industrial funds were not operating as intended and corrective actions were needed. Since these activities are now part of the Defense Business Operations Fund, continued losses of this magnitude will impair the Fund's financial integrity and serious impair DOD's ability to reduce the costs of operations.

QUESTION 11: In your opinion, is DOD setting the Fund's rates to recover the full costs of operations?

RESPONSE: Based on our work performed thus far, it is questionable at this time whether the Fund's rates are based on full costs, particularly in the supply management business area. An important part of the rate setting process for supply management is determining the value of cost-of-goods-sold (COGS). The COGS figures being reported by the various supply management activities are not accurate. Supply management lacks (1) good cost accounting systems and (2) specific OSD guidance on exactly what should or should not be included in the COGS computation. DOD and the services estimate the value of COGS, but cannot support the value with accounting data.

QUESTION 12: According to your March 1995 report, the cost of military personnel will be the civilian equivalent rate, not the military personnel rate. You disagree with this policy. Why?

We disagree with this policy because it will understate the total military personnel costs since the civilian equivalent rate is less than the military personnel cost by about 23 percent. One objective of the National Performance Review (NPR) is to include the full costs in the price that providers charge customers. Charging the customers the military rate for military personnel, rather than the civilian equivalent rate, would be more consistent with the full costing concept of the NPR and with the Fund's basic intent.

SYSTEMS

QUESTION 13: Are the systems currently in place capable of producing accurate and reliable information on the results of operations?

RESPONSE: One of the major challenges still confronting DOD is the improvement and standardization of the Fund's financial systems. The Fund is supported by the same systems that existed under the old stock and industrial funds and, consequently, inherited the multiple problems of those systems. The Fund has 80 disparate, unlinked financial systems and approximately 200 ancillary systems that provide financial data. As a result, the Fund's accounting systems do not provide complete and accurate information on the results of its operations. These complex, serious, and long-standing problems adversely affect DOD's ability to accurately account for, control, and manage billions of dollars of resources.

Developing and implementing systems that produce credible cost data is essential for successful Fund operation. Users of the cost data, such as Fund customers, must be assured that the cost data are accurate because the data will be used as the basis to bill them for the goods and services they receive. Also, the cost data must be accurate for congressional oversight and control over customers' budget requests.

QUESTION 14: DOD is trying to improve the financial systems that account for the Fund's resources. Does DOD know how much it is going to cost to improve the Fund's systems?

RESPONSE: According to DOD's preliminary estimate, it will cost \$94.5 million to enhance the 17 systems that have been selected to account for the Fund's resources. However, this estimate does not include the following significant costs: (1) improvements needed to meet

minimum technical requirements, (2) data conversion from the existing systems to the interim migratory systems, (3) development of interfaces with nonfinancial systems, such as logistics and personnel, that generate most of the financial data, (4) training of personnel who will operate and enter data into the interim migratory system, and (5) replacement of 63 existing systems with the interim migratory systems.

QUESTION 15: The development and implementation of improved systems is a long-term effort. Until these systems are in place is there any hope of improved reporting on the results of operations?

RESPONSE: DOD is currently working on selecting systems to account for the Fund's resources. DOD has just begun to determine the cost to implement the selected systems. Given DOD's history of difficulty in implementing systems, DOD cannot afford to let this critical effort fail.

Given the pressing need for reliable data and the fact that the planned system improvement efforts will be a long-term venture, it is important for DOD to pursue short-term efforts to improve the quality of its financial information. Operating improvements could be obtained under the present systems.

For example, the financial reports prepared during fiscal years 1992, 1993, and 1994 could have been improved if DOD had (1) exercised more discipline in following and enforcing existing policies and procedures, (2) routinely reviewed and analyzed its monthly reports to identify inaccuracies, and (3) taken the steps needed, such as providing additional guidance to field activities, to correct the identified problems. Our review of the Fund's monthly financial reports disclosed that the Army supply management business area had a reported fiscal year-end 1994 operating loss of \$8.5 billion on a program that had revenue of \$7 billion. After we visited the Indianapolis DFAS Center, where we discussed the loss with officials, it was determined that a clerical error of about \$6 billion had been made and the report was revised to show a fiscal year 1994 loss of over \$2.6 billion.

FINANCIAL REPORTS

QUESTION 16: GAO has been critical of the accuracy of the Fund's financial reports. What actions can DOD take to improve the accuracy of these reports?

RESPONSE: To properly manage the Fund, DOD needs to have business type financial reports that accurately disclose the results of operations. Such reports should include a monthly balance sheet, income statement, and cash flow statement. These reports would be similar to the annual financial reports required by the Chief Financial Officers Act.

However, the military services and DOD components use different systems to account for the Fund's costs. These systems have 15 different general ledgers for accumulating the Fund's revenue and costs. To improve the accuracy of the reports, DOD could assemble a team with representatives from OSD, DFAS Headquarters, each of the Finance Centers, and the military services and DOD components to determine what information should be on the financial reports and the general ledger accounts that would provide that data. The team would need to ensure that data from the different systems is comparable.

In addition, DFAS headquarters, the DFAS Centers, and the DOD components will need to work together and agree on the actual sources of the information to be used to produce the financial reports.

QUESTION 17: In your testimony before this Subcommittee last year, GAO pointed out that the Fund's fiscal year 1993 financial and budget reports reported amounts that differ by \$6.1 billion for net operating results. Does the fiscal year 1994 financial and budget reports agree or disagree this year?

RESPONSE: Significant differences continue to exist between the two sets of records. According to the Fund's budget, it made approximately \$54 million in fiscal year 1994. However, the financial reports for fiscal year 1994 show that the Fund lost \$4.4 billion.

Meaningful and reliable financial reports on the Fund's operating results are essential to allow DOD management to monitor the Fund's operations and set realistic prices to charge customers. Reliable financial reports are also necessary to enable the Congress to exercise its oversight responsibilities. However, DOD and the Congress have not received accurate information on the Fund's net operating results (NOR). Our comparison of the Fund's accounting and budgeting reports for fiscal years 1992

and 1993 also identified billions of dollars of differences in the reported NOR. Given the differences shown on the reports, DOD cannot be certain (1) of the actual operating results for the Fund or (2) if the prices the Fund will charge its customers are reasonable.

Credible cost data on operating results are essential. These data are considered in setting the prices the Fund will charge its customers and, in turn, the basis for establishing the customer's budget request. Volume 1 of the Department of Defense Financial Management Regulation (DOD 7000.14-R) requires accounting results to be the basis for (1) preparing and supporting the agency budget and (2) providing financial information the President requires under the budget and appropriations authority.

QUESTION 18: If you add up all the opportunities for savings that you present today, how much are you talking about that could be saved?

RESPONSE: Based on completed and ongoing GAO work, we have identified potential dollar savings in the billions of dollars. Specifically, we found:

In the finance area, DOD's analysis indicates that 5 large centers and 6 smaller operating locations would be adequate to handle its finance and accounting operations. DOD, however, has decided to build a finance and accounting network that includes 5 centers and 20 operating locations. Our preliminary analysis shows that the larger number of sites will require up to 3,500 more personnel and cost \$2.8 billion (net present value) more to operate over the next 20 years. DOD will also need \$173 million in military construction funding in fiscal years 1997, 1998, and 1999 to refurbish the 20 new operating locations. Also, further savings of \$16 million in annual operating costs could potentially be saved by taking advantage of the higher productivity levels that may be attained by reengineering civilian payroll processes. In other finance areas, reengineering travel voucher processing could result in annual savings of about \$750 million.

In inventory management, substantial savings exist by reducing DOD's \$77.5 billion secondary inventory. DOD has estimated that about \$36.3 billion of the inventory represents items that are not needed to be on hand to support DOD's war reserve or peacetime operating requirements. Also, further reductions are possible by improving inventory management practices. For example, by adopting the prime vendor concept and disposing of old and obsolete inventory, DOD reduced medical inventories by \$365 million and saved \$101 million in reduced holding costs. Further, these practices reduced operating costs as well. For example, one medical center saved an estimated \$6.1 million annually in lower operating costs by using the prime vendor system.

In transportation management, eliminating fragmented and duplicative processes in the defense transportation system could achieve hundreds of millions of dollars in savings.

In printing, \$20 million to \$30 million could be saved by contracting out additional work, assuming suitable term contracts can be established with private vendors.

In replacing military personnel with civilians, our preliminary analysis shows that over \$2 billion a year could be saved in personnel costs if the services eliminated about 148,000 military positions and used civilian employees in support positions in 24 occupational specialties.

QUESTION 19: What is the impact of your best management practices work and what do you anticipate will be targets of opportunity in the future?

RESPONSE: DLA has begun making improvements in the way it buys and stores inventory, largely based on GAO's analysis. For example, GAO recommended that DLA pilot the prime vendor concept for its wholesale medical supplies. DLA found that it could reduce the need for DOD to store and distribute inventory to its approximately 150 hospitals and medical treatment facilities nationwide, reduce logistical costs, and improve customer service. In addition, DLA is implementing a pilot program, as GAO recommended, to have private sector food distributors deliver food directly to dining facilities rather than to defense storage

facilities. Through this change, DLA anticipates about a 75-percent decline in peacetime inventory levels and improved customer service.

Targets of opportunity in the future include outsourcing or privatizing non-core functions that DOD is currently handling where there is a competitive commercial market. Opportunities to examine include base operations, depot maintenance, commissaries, military exchanges, and various logistics and finance activities.

QUESTION 20: What are the opportunities that show the greatest promise for DOD to tackle that DOD is not pursuing at this time?

RESPONSE: Much of DOD's efforts to achieve efficiencies and reduce the costs of infrastructure continue to be done within service stovepipes. The services initiate and implement cost saving efforts within their sphere of responsibility of control and there has not been significant progress or successes in implementing cross-service DOD-wide initiatives.

QUESTION 21: What key process or processes should DOD attempt to reengineer across the Department?

RESPONSE: We believe examining total asset visibility from a DOD-wide perspective and reengineering those processes along business and functional lines could go a long way in improving material management, control, and movement. It will require integrating and exchanging data among hundreds of service-unique systems. Improved visibility of military assets could reduce inventories and enhance logistics support.

QUESTION 22: Is CIM the right or best vehicle for institutionalizing reengineering in DOD and can it overcome the perception that it is primarily a technology-driven initiative?

RESPONSE: CIM is not the best vehicle for institutionalizing reengineering in DOD because it (1) does not have the total commitment and support of the functional managers, (2) is perceived as technology-driven rather than process-driven initiative, and (3) is one of many management improvement initiatives taking place throughout DOD. Our work on reengineering in the private sector indicates that initiatives of this

magnitude are managed at the highest levels of an organization, processes are reengineered prior to acquiring or developing technology, and the effort is clearly integral to the overall strategic vision of the organization. We harbor strong doubts that CIM can overcome the perception that it is a technology-driven initiative. Many of the agency officials we interviewed believe that the priority of the CIM initiative is on selecting technology "migration" systems within service stovepipes. Furthermore, the Secretary of Defense, in a September 1994 memorandum, challenged each department and agency to take a fresh look at their high payoff processes and develop--through reengineering techniques--truly innovative approaches to the performance of missions and functions. However, the stewardship of this new initiative is the Director of the Defense Performance Review, which further confuses CIM's reengineering mission.

QUESTION 23: What changes do you think should be made to DBOF and the financial management systems to attain reliable and accurate information so that Defense managers can make better business decisions?

RESPONSE: First, DFAS headquarters, the DFAS Centers, and the DOD components need to work together and agree on the actual sources of information to be used in preparing the financial reports. Second, the financial reports need to be reviewed monthly to ensure that the information appears reasonable. Our past reports and testimonies have identified numerous instances of inaccurate reports. For the more part, a cursory review of the reports would have identify the glaring errors that we found. For example, the May 1993 financial report for the Navy supply management business area showed a profit of \$23.1 billion. A review of the report by DFAS personnel would have shown that the reported profit was over five times greater than the reported revenue of \$4.3 billion and, therefore, an obvious error. Third, DOD needs to fully explain how it arrives at the information used in preparing the Fund's budgets. We have previously reported that significant differences exist between the financial and budgeting reports, but DOD has yet to provide an adequate explanation as to why these differences exist. The Department of Defense Financial Management Regulation states that a primary objective of DOD accounting systems is to provide

needed actual accounting data for use in budget formulation. In addition, the financial management data are to be recorded and reported in the same manner throughout DOD components, and the accounting information is to be synchronized with budgeting information. However, in the case of the Fund this not occurring.

QUESTION 24: Why do you believe reengineering needs to take place first prior to development and modernization of information systems?

RESPONSE: Successful private sector reengineering practices suggest that modernizing information technology to support old business processes constitutes a wasteful exercise and achieves marginal results. In addition, DOD runs the risk that its current spending on technology will either lock it into outmoded ways of doing business or cause that technology to be scrapped when it does reengineer its processes.

QUESTION 25: You have labeled modernization systems a high-risk. What are the most pressing problems in information technology and what first steps should DOD take, immediately and in the long term, to reduce that risk? Are you recommending a cut in systems modernization funding?

RESPONSE: We believe that Defense's implementation of CIM and its current approach to modernization is at high risk. For many systems where new development, modernization, or migration is taking place, Defense has not performed an adequate evaluation of cost/benefit, return on investment, or the technical risks associated with its decisions. As a result, Defense faces a greater risk of failure or the potential that the solution chosen may be the most costly, have little or no return on investment, and may not be technically feasible.

What should be done?

We believe that the oversight process for go/no go decisions needs to be removed from the same person responsible for development and deploying of the system. We believe that the ASD C3I's role should be limited to technical feasibility and certification that the system is within technical standard parameters. We also believe, for the short term, that

each system under development, being modernized, or selected for migration should:

- have a current cost/benefit, economic analysis in accordance with OMB guidelines and Defense regulation,
- should be baselined with performance measures to measure success, and
- have an anticipated return on investment so that decisionmakers can judge whether those responsible met their goals and have information available by which critical choices can be made as to where to apply scarce resources.

In the long term, Defense needs to develop integrated strategic plans for all its business processes and from this develop a strategic information management plan and a funding plan for the application of technology to these critical processes. Once these plans and decisions are made they should be tied into the Defense's Future Planning, Programming, and Budget System (PPBS). We believe that DOD's modernization efforts and expenditures should be limited until these steps are taken.

Mr. BATEMAN. Now, we look forward to hearing from the comptroller of the Department of Defense, the Honorable John J. Hamre. Secretary Hamre, we're delighted to have you with us today and look forward to your testimony——

Secretary HAMRE. Thank you very much.

Mr. BATEMAN [continuing]. On how DBOF really works. You will save an enormous amount of confusion.

Secretary HAMRE. Well, sir, you've laid out a very large challenge. I'm not sure the day is long enough. I hope time lets me come back and address some of these things I've heard from the previous panel. I feel a little like a mosquito in a nudist camp. There are so many targets, and it's just wrong, and I'd like to talk about some of that. I do want to talk about a few other things first.

Mr. BATEMAN. Let me say in that connection, Mr. Hamre, we'd be delighted to have you submit something for the record on this.

[The following information was received for the record:]



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON DC 20301-1100



APR 11 1995

Honorable Herbert H. Bateman
Chairman, Readiness
Subcommittee on National Security
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

At your hearing on March 23, 1995, concerning the DoD Authorization request for FY 1996, the General Accounting Office (GAO) testified on a number of topics. As I said that day, GAO made some statements that I know to be flat-out wrong. Although there was not enough time at the hearing to set the record straight in all of these areas, you were kind enough to offer me the opportunity to submit the facts for the record. Therefore, I have prepared the enclosed rebuttal and ask that it be inserted in the record.

The most disturbing charge to me was Ms. Heivilin's statement that the Defense Finance and Accounting Service (DFAS) is "not trying to improve customer service." As shown in the attachment, DFAS has numerous initiatives to both improve service and to reach out to their customers to improve communications about DFAS services.

Moreover, I have made a strong personal effort to bring DFAS and its customers together at the highest levels in the Department. For instance, the Director of DFAS attends the Senior Financial Management Oversight Council which is chaired by the Deputy Secretary of Defense and includes the Secretaries of the Military Departments. DFAS is also a member of the Corporate Board of the Defense Business Operations Fund, which is chaired by me, as well as a member of the Financial Management Steering Committee which is chaired by my principal deputy. DFAS also attends my weekly meetings with the Assistant Secretaries (Financial Management) from each Military Department. In all of these forums we emphasize lower costs, correction of accounting problems, and improved service.



I seriously hope that Ms. Heivilin's comment was an unintentional misstatement, rather than an explicit conclusion. I certainly have made misstatements myself in oral testimony. But if this statement represents a careful assessment by GAO, that assessment is thoroughly uninformed and terribly misleading.

Thank you for this opportunity to get the true facts into the record.

Sincerely,

John J. Hamre
John J. Hamre

Enclosure

cc: Honorable Norman Sisisky
Ranking Democrat

Thank you again, Mr. Chairman, for your strong leadership on the readiness issue. Our committee has a proud tradition in protecting the readiness of our forces and your steady hand at this critical time is crucial.

v/k John H.

DoD Response to GAO Testimony on Defense
Financial Management Issues

At the March 23, 1995, hearing before the Military Readiness Subcommittee of the House National Security Committee, the General Accounting Office discussed several issues regarding financial management within the Department of Defense (DoD). I would like to provide for the record specific information regarding some of those issues:

GAO STATEMENT: Ms. Heivilin stated she was concerned the Defense Finance and Accounting Service (DFAS) was downsizing but not trying to improve customer service.

DFAS RESPONSE: DFAS formally established a Total Customer Service Program on June 1, 1993, to facilitate the beginning of a culture change between DFAS and its customers. The program has a variety of initiatives that focus on DFAS customers and represent a composite, systematic way to bring customer service into the spotlight and raise customer service awareness. The following initiatives relate to the program:

- DFAS Customer Service Plan. In response to the Executive Order on customer service requiring all Governmental Agencies to "publish a customer service plan" addressing their public customers, DFAS designed and developed a prototype DFAS Customer Service Plan. The plan covers three specific customer groups considered "the public." These include vendor/contract pay, retirees/annuitants, and out-of-service and contract debt. The plan includes the DFAS purpose and mission, identification of the customers (how many/work load), services provided, priority areas and actions for improvement, customer service standards, future benchmarking and survey efforts, and agency points of contact. In addition, the next year, DFAS will expand the Plan to include all customers. Our objective is to incorporate strategic planning, performance measures, quality initiatives and cultural change.

- DoD-Wide Customer Service Symposium. DFAS holds regular customer-oriented symposiums to gather feedback on problems, perceptions, service desires, and customer expectations. In 1993, DFAS Headquarters began sponsoring annual DoD-wide Customer Service Symposiums. The first was an outstanding success based on feedback from the approximately 450 attendees. The 1994 Symposium was an even greater success providing valuable interaction with customers on the theme of consolidation, and with an audience of over 550 attendees. DFAS especially encourages participation from "grass roots" customers, so audiences consist primarily of Military Service and Defense Agency representatives from installations and their command levels. For the 1994 Symposium DFAS solicited customer input in developing the agenda for the Symposium workshops, to make them as meaningful as possible for the agency and the

customers. The annual DoD-wide Customer Service Symposium has gained increased significance, because it features current topical issues, features a variety of speakers on customer service and because it complements the initiatives of the National Performance Review, the Executive Order on Setting Customer Service Standards, and other "re-inventing government" initiatives. Plans are now underway for the 1995 Symposium to be held in Indianapolis in December 1995.

- Center Symposiums. The DFAS Centers also hold an annual symposium for all their Major Command/Defense Agency customers. These symposiums provide another valuable way to interact with the customers on a somewhat smaller scale, and to obtain feedback on the perceptions and concerns of the customers.

- Major Command Visits. DFAS Center Directors now visit a majority of their Major Command customers at least once a year to establish a rapport for improved communication and provide a personalized, face-to-face opportunity for interaction.

- Senior Financial Management Oversight Council. The DFAS actively participates, along with its customers, in the Department's Senior Financial Management Oversight Council. This Council was created to provide a management oversight structure to ensure the involvement of senior DoD leaders in the financial management reform process. The Council, chaired by the Deputy Secretary of Defense, meets on a regular basis--generally monthly--to address existing and emerging financial management weaknesses and deficiencies, approve plans for proactive solutions to financial management weaknesses and deficiencies, assign responsibility for correcting financial management problems, and monitor progress in reforming the Department's financial management. The Council's membership includes the Secretaries of the Military Departments, the Vice Chairman of the Joint Chiefs of Staff, the Under Secretary of Defense (Acquisition and Technology), the DoD Comptroller/Chief Financial Officer (Executive Secretary), the Assistant Secretary of Defense (Command, Control, Communications and Intelligence), the DoD General Counsel, and the Director of the Defense Performance Review. While the Inspector General, in order to avoid a potential conflict of interest, is not a member of the Council, she serves as an observer and, at the request of the Chair, provides support to the Council. Based on the subject matter being addressed at a Council meeting, other senior officials also may be invited to attend Council meetings. Progress on some of the Department's longstanding problems has been possible because the high-level membership of the Senior Financial Management Oversight Council provides the necessary framework and clout to focus attention on problem areas and exert pressure to make things happen.

- Financial Management Steering Committee. The DFAS also is an active member of the Financial Management Steering Committee.

This Committee was chartered to oversee the development of functional requirements, facilitate the implementation of product and policy recommendations, and address other issues involving financial management systems and practices (outside of the Defense Business Operations Fund). The Committee is chaired by the Chief Financial Officer, and includes the Assistant Secretaries for Financial Management of the Military Departments, a senior official from the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) and the Comptroller of the Defense Logistics Agency. This Committee also meets on a regular basis, usually monthly, to address various concerns of the Department, including DFAS' customers.

•Defense Business Operations Fund Corporate Board. The DFAS, along with many of its customers, participates on the Defense Business Operations Fund Corporate Board. This Board, which was established at the direction of the Deputy Secretary, addresses actions to correct identified deficiencies, and otherwise improve the operations, of the Defense Business Operations Fund. One key responsibility of the Board is to monitor carefully the progress against actions intended to improve systems and financial operations. The DFAS is a key player in these efforts, and works closely with its customers in developing and implementing policies, procedures, and systems. For example, working with its customers, the DFAS lead an effort to develop system requirements for supporting the Fund, and identify which existing systems best support those requirements. This will allow the Department to migrate to fewer systems, thereby reducing systems costs.

•Weekly Financial Management Meetings With the Under Secretary of Defense (Comptroller). The DFAS also attends weekly meetings that the Under Secretary of Defense (Comptroller) holds with the Assistant Secretaries (for Financial Management) of the Military Departments. While a myriad of issues are discussed at these weekly meetings, it is yet another forum in which the DFAS, along with its customers, is able to, and does, address customer concerns.

•Installation Meetings. DFAS has held a large number of meetings at the installation level to identify potential problems relating to customer service delivery, establish a dialogue and resolve specific customer issues.

•Operational Review and Analysis (ORA). To improve communication with the Military Department Financial Managers (FM), DFAS established an ORA process. In this process they solicit and identify FM interest issues and hold quarterly, customized briefings covering a variety of topics in detail, for each individual service FM. These are face-to-face briefings with each service FM, with the Centers available via video teleconferencing to answer operational questions. DFAS follows

up on issues for action and incorporate feedback into future briefings.

•Financial Manager (FM) Liaison Meetings. As an additional communications tool with the Military Department and Defense Agency FM's, DFAS regularly holds formal monthly liaison meetings. These monthly meetings with all FMs and their associated staffs provide a vehicle for information exchange and discussion on significant issues in financial management. They cover topical agenda items with the FM staffs. FM participants have remarked that they like the topical emphasis placed on the meetings, that they are very beneficial, and they provide a value-added information exchange opportunity.

•Customer Satisfaction Surveys. Customer satisfaction surveys provide DFAS a way to reach customers to get unfiltered feedback on accounting and finance products and services. DFAS employs various approaches to listening to their customers. They include the global survey, transaction based surveys, focus groups, comment cards, toll-free 800 numbers, employee feedback surveys, process measures, and visits to customer sites.

- DFAS completed a global survey of Army retirees in August 1994. Overall, 99% of the retirees surveyed indicated they were satisfied to very satisfied with services provided.
- DFAS is currently working to develop an Agency-wide survey of vendors.
- DFAS is developing a survey of Finance Operations Call Center customers.
- DFAS Columbus Center conducts transactional surveys of travelers on a quarterly basis. The survey indicates that overall customers are satisfied with the travel process, an average score of 4 out of a possible 5.
- DFAS Denver Center developed and administered a survey of their active duty military. No results have been received as yet.
- DFAS Kansas City Center and DFAS Cleveland Center have automated survey scripting to the Interactive Voice Response Systems.

In the areas of education, training, and professional development, DFAS has developed and implemented a number of initiatives over the past three years.

•Newsletters. As a way to inform and educate customers, they have a wide variety of newsletter and publication oriented tools. The Centers produce newsletters aimed at addressing specific customer issues.

- HQ Magazine. The Headquarters, DFAS publishes the "DFAS Accounting Firm" monthly magazine for internal and external customers in DoD. This magazine regularly contains articles on customer service developments and issues. Additionally, DFAS contributes to other high visibility financial management publications such as the American Society of Military Comptrollers (ASMC) Armed Forces Comptroller magazine.

- ASMC Professional Development Institute (PDI). DFAS is a very active player in the ASMC PDI, the premier financial management information event in DoD. DFAS participates in a number of ways during this 3-day annual event, giving a number of focused workshops on topics of interest to their customers, hosting an entire day of the conference (DFAS Service Day) for the internal and external customers, and displaying and distributing a large amount of valuable information via the DFAS exhibit booth, which is staffed and on display throughout the conference.

- Classes at Service Schools. DFAS is a regular speaker at a variety of Service schools, giving presentations on the DFAS mission, recent developments, issues of interest to the students, and using the opportunity to gain insight and feedback from students on customer service issues. They have participated in classes at:

- Professional Military Comptroller's School (PMCS)
- Syracuse MBA Program
- Finance Service Schools
- War College
- Army Staff College
- Harvard University

- Specialized Conferences/VTCs. DFAS hold and participate in specialized conferences, targeted on issues of interest and priorities of their customers. Examples of these would be the conferences that were held on the Defense Joint Military Pay System (DJMS), DoD Financial Statements, and the Negative Unliquidated Obligation Summit conference.

Under a mandate to streamline and consolidate operations, DFAS is working with the Headquarters Information Management office and the Centers to develop technologies that will improve productivity and customer service. These include Interactive Voice Response Systems (IVRS), Automated Call Distribution Systems (ACD), Call Centers, Kiosks, etc.

- DFAS has developed a Teleservice Concept of Operations for the Operating Locations that recommends maximum use of teleservice technology.

- DFAS has sponsored training sessions by the Incoming Call Center Management Institute for Center and Headquarters personnel.

- DFAS has scripted customer satisfaction survey questions for use on the Automated Voice Response System (AVRS) in the DFAS Cleveland Center retired pay operations area.

DFAS has established a Customer Service Recognition Program replete with suitable awards for outstanding performers.

- Great Performers Award Program. The DFAS "Great Performers" award program was established in December 1993 to give agency-wide visibility and recognition to individuals or teams who put forth superior efforts to an event which provides an exceptional level of customer service. To date, Great Performers have been selected from Kansas City, Cleveland, Denver, and Indianapolis Centers. A unique Great Performers memento has been designed and is being produced for this program.

- Center Customer Service Awards. DFAS Centers also have a wide variety of customer service award programs to encourage superlative efforts towards customer service.

In many cases customers have been brought into the decision-making process and are active members of the finance and accounting organization. As a matter of fact, DFAS has given the customers a voice in the configuration control process. They now have an opportunity to express their priorities and have input concerning systems and process changes.

Tremendous strides have also been made in reducing unit cost and improving efficiency.

- Cost Reduction Efforts. DFAS has made significant progress in its efforts to standardize business practices and reduce the overall costs of doing business. Through functional consolidation efforts such as the consolidation of all retiree and annuitant systems into the Defense Retiree and Annuitant Pay System at the Cleveland and Denver Centers, the standardization of civilian pay to the Defense Civilian Pay System, the Defense Debt Management System at all Centers, and the overall consolidation of over 300 Defense Accounting Offices (DAOs) into 21 Operating Locations, DFAS is reducing the costs to its customers.

- Benchmarking. DFAS began a benchmarking effort, with the initial effort being the Training and Development of Customer Service Call Center Personnel. The internal benchmarking core team is close to completion of that initial effort. They are documenting existing call center training procedures and

processes, and are now contacting/visiting several leading companies that excel in this area.

Several other accomplishments have taken place regarding benchmarking in DFAS, including: 1. a conference call involving General Electric Headquarters, DFAS Executives, and Under Secretary of Defense (Comptroller) representatives. This was very successful and served to validate our consolidation process, as General Electric has recently completed a similar effort; 2. participating in the National Performance Review-led study of call centers; and 3. participating in weekly benchmarking meetings, focusing on improving the use of Benchmarking in DoD and linking benchmarking programs with BPR efforts.

DFAS also is in the process of improving customer service by expanding its use of current and emerging technologies and modernizing business practices. Efforts include the use of:

- Electronic Commerce and Electronic Data Interchange
- Imaging
- Business Process Reengineering and Business Process Improvement

GAO STATEMENT: In the civilian payroll area, Ms. Heivilin stated that personnel in leading companies manage 3,000 pay accounts per person compared to the average of 684 accounts in DFAS.

DFAS RESPONSE: In the Civilian Pay business program, the statement regarding accounts handled per "person managing pay accounts" misrepresents the DFAS current program status and direction, i.e., the 684 average represents a blend of where DoD was (with legacy systems and local pay offices) with where it is going (with a standard system and several centralized pay offices).

When DFAS was created in 1991, approximately 2,800 civilian pay clerks in the Department of Defense (DoD) were responsible for paying 1.07 million civilian accounts, averaging between 350-400 accounts per clerk. The Department of Defense had over 360 local payroll offices worldwide, using 19 relatively old automated payroll systems (now termed "legacy" systems) to pay the majority of employees and several smaller automated/manual systems to pay employees overseas.

DoD selected a single system (the Defense Civilian Pay System) as the Departmental standard in September 1991 and began converting accounts from legacy systems and local pay offices to three locations utilizing DCPS, in May 1992. As of mid-March 1995, over 350,000 DoD employees are being paid by DCPS; 9 legacy systems have been closed down; and over 160 local payroll offices closed. The Department will complete conversions of over 700,000 accounts from all legacy systems to DCPS by

March 1997. (By way of comparison, the largest other Federal payroll organization and system converted approximately 350,000 accounts from multiple agencies and systems in an 11 year period (1983-1994). Large portions of that 350,000 came from one system (Department of Treasury had 180,000 accounts operating on one system, with one or few central payroll offices).

The payroll offices using DCPS have the advantage today of using a state-of-the-art system under business practices which have already been redesigned. For example, the DCPS payroll office in Charleston, S.C., today services 1,487 employee pay accounts per employee in the payroll office. That includes payroll office managers and supervisors, mail and file clerks, as well as pay technicians directly responsible for managing the accounts. In addition, these payroll office staff are directly involved today in the conversions and implementations of accounts from the legacy systems and old local payroll offices to DCPS. Charleston performs a set of conversion duties that include training of timekeepers and local customer staff who are the liaison between the paid employee and the payroll office itself. Therefore, the 1,487 accounts per payroll office employee includes all the time payroll office staff spend doing conversion training, establishment of initial system tables to bring new accounts on the system, etc. The 684 average cited in the testimony blends the old pay offices which average 350 accounts per clerk with the DCPS offices, which have already realized over a 300% productivity increase in accounts per person.

The DFAS goal under DCPS, when conversion work is completed, is 1,800 accounts per pay technician. World class organizations, such as the General Electric Corporation, which have undertaken similar consolidations from multiple pay systems and payroll offices have, in benchmarking discussions, remarked on the rapidity with which the Department is accomplishing the largest payroll consolidation ever undertaken.

Second, our observation of and interaction with private sector payroll servicing companies over several years would indicate that the scope of "payroll" functions is defined quite differently between such service companies and the Federal Government. In its broadest terms, payroll can be characterized as two distinct processing functions: "zero-to-gross" processing and "gross-to-net" processing, plus reporting.

Zero-to-gross processing is the development and calculation of all pay entitlements: base salary, all special pay entitlements including differentials (hazardous duty, environmental differentials, special salary rates); premium pays (shift differentials, Sunday premium pay); and allowances (such as overseas quarters and subsistence allowances), many of which are based on hours and time and attendance data submitted by the employer each pay period.

Gross-to-net processing encompasses the calculation of all mandatory deductions from gross pay (taxes, retirement) and all voluntary (union dues, savings bonds allotments, charity allotments, etc.) and involuntary deductions (garnishments, tax levies, child support payments) from gross pay, to arrive at net pay.

In discussions with private sector firms, we have learned that many service companies do not always perform full zero-to-gross processing. The customer companies whom they service do not necessarily release compensation package and gross pay algorithm data to payroll service companies, considering that proprietary compensation information, nor do the service companies perform the zero-to-gross processing. Service companies do perform gross-to-net processing, once the components of gross pay are provided by the source customer company.

Zero-to-gross processing is by far the harder of the two functions, as it builds entitlements based upon a complex set of algorithms. Gross-to-net processing merely deducts from gross pay based upon more simple formulas. Federal payroll offices and systems, including DCPS, must perform both components of payroll processing, vice only gross-to-net processing. Comparisons between private sector and Federal payroll systems and organizations must reasonably compare what functions the service company performs and what functions the customer (i.e., the serviced organization) performs, before concluding where more efficient processing, in terms of accounts serviced, is realized.

Finally, the Federal Government and the private sector are subject to very different legal requirements. For example, on the Federal Government side, the Debt Collection Act requires that the payroll office notify an overpaid employee of the debt and provide the employee due process under the law. The overpaid Federal employee has the right to request a waiver and then have a hearing of what is clearly a debt. On the other hand, the private sector is not subject to these statutes.

GAO STATEMENT: Ms. Heivilin criticized DFAS'/DoD's results in reducing costs in the Corporate Information Management (CIM) initiative.

DFAS RESPONSE: In fact, the CIM Steering Committee evaluated and subsequently approved five finance systems for which deployment is well underway or already complete in the Department. Each is categorized as a DoD migratory system and is being implemented throughout the Department.

1. **Defense Debt Management System (DDMS):** DDMS was the first standard financial system to be fully implemented. It standardizes the collection of debts of former military service members, civilians not being paid by the federal government, and

delinquent contractor accounts. DDMS processes approximately 311,000 debt collection actions against former military service members and civilians and 2,000 cases against DoD contractors annually. DDMS became fully operational in December 1993.

2. Defense Retiree and Annuitant Pay System (DRAS): DRAS is the standard retired and annuitant pay system. It computes active and reserve retired pay and pays for survivor and annuity programs; accounts for the payments issued out of the DoD retired pay trust fund; and reports payments, adjustments, deductions, and other pay related data. DRAS implementation was phased in from May 1993 through April 1995. DRAS processes 2 million Army, Navy, Air Force, and Marine Corps retiree and annuitant accounts.

3. Defense Civilian Payroll System (DCPS): DCPS is a fully automated civilian payroll and leave accounting data collection, processing and reporting system supported by standard payroll procedures and practices. It eliminates the duplication and inefficiencies present in previous payroll and central design agent operations. DCPS will be used to pay all DoD civilian personnel. To date, 350,000 pay accounts have been converted to DCPS. When fully implemented, DCPS will service approximately 800,000 accounts, replace 18 payroll systems and reduce 360 payroll offices to four central payroll offices. DCPS implementation began in May 1992 and is expected to become fully operational by March 1997.

4. Defense Joint Military Pay System (DJMS): DJMS computes and pays military pay and leave for the Army, Navy and Air Force active duty members; Reserve and National Guard personnel; Reserve Officer Training Corps cadets and midshipmen; Armed Forces Health Professional Scholarship Program students and military academy cadets and midshipmen. In support of the Marine Corps total force concept, DFAS assisted in the development and implementation of a single integrated active and reserve personnel management and pay system, the Marine Corps Total Force System (MCTFS). MCTFS became operational in October 1994 and services 300,000 accounts. DJMS will be fully implemented in January 1997 and service over 2.5 million accounts. When combined these two systems will standardize military pay, reduce long-range costs, enhance customer service and improve pay service capabilities during emergencies and in wartime.

5. Defense Transportation Payment System (DTRS): DTRS when fully implemented will consolidate and standardize DoD transportation payments. It is currently standardizing Defense transportation payments for household goods and freight shipments. This multi-agency initiative significantly improves payment processing by replacing the manual receipt, review and warehousing of documents with electronic data interchange processes. It replaces costly prepayment audit processes that are expected to recoup approximately \$13 million in lost revenue

annually. These DTRS electronic capabilities will be fully implemented by FY 1996.

DFAS will achieve significant savings through consolidating and standardizing its financial systems and operations. These new state-of-the-art technology systems when fully implemented will improve productivity and reduce operating costs in FY 1997 by over \$57 million. The Defense Civilian Payroll System alone will save over \$29 million in operating costs each year.

GAO STATEMENT: Ms. Heivilin expressed concern over the plan to consolidate finance and accounting activities into five large centers and 20 smaller centers. She stated that she believed that five large centers and six smaller centers was more appropriate, in fact would save \$3 billion over the next 20 years.

DFAS RESPONSE: A primary consideration in developing the DFAS consolidation plan was the imperative to move work as quickly as possible from Defense Accounting Offices since the announcement of any realignment would have an immediate impact on mission accomplishment as a result of attrition. At the same time, the strategy recognizes that the relocation to new sites must be accomplished deliberately to ensure mission effectiveness. Transition planning considered both issues. The plan migrates workload at a rapid but manageable pace to new sites to minimize mission failure in the field network.

In addition, by consolidating into 5 large centers and 20 smaller DFAS operating locations (vice 5 large centers and 6 smaller operating locations), DFAS will be able to achieve savings more rapidly since only a limited amount of work can be transferred safely to one receiving site at a time as discussed above. Thus, with more consolidation sites receiving work, the consolidation can be completed more rapidly and the savings achieved more rapidly as well.

Also, additional sites provide more flexibility for future expansion should that prove necessary or desirable. For example, in the future, it may be feasible and desirable to consolidate European or certain aspects of tactical finance and accounting to DFAS sites in the Continental United States, and the larger number of operating locations provides the necessary expansion capability. Similarly, the larger number of operating locations provides the rapid expansion capability needed in the event of hostilities or full mobilization.

GAO STATEMENT: A concern was raised regarding reengineering business practices later rather than at the outset.

DFAS RESPONSE: One of the overriding priorities of DFAS has been to achieve savings as rapidly as possible, and the most significant savings accrue from consolidation. To delay consolidation in order to conduct classic, full-scale Business

Process Reengineering reviews would have meant delaying the achievement of these significant savings. However, a good deal of business process reengineering has already been accomplished, and a significant amount is underway simultaneous with the consolidation effort. Unfortunately, DFAS does not have sufficient resources to do everything at the same time.

In preparing for consolidation, DFAS performed extensive reviews of its existing business practices with a view toward identifying the most efficient structure for implementation at future Operating Locations. Although these reviews were not classic Business Process Reengineering efforts (which typically take 1-3 years), they did identify the best practices that should be adopted for all sites, and they identified a number of near-term initiatives which could be implemented to improve operations. The reviews resulted in a single process and supporting organization structure to be implemented at the Operating Locations. Additionally, the reviews identified opportunities to employ technology such as imaging and electronic commerce. Extensive projects are currently underway to expand the use of imaging and electronic commerce in Defense finance and accounting functions.

A great deal of Business Process Reengineering has already been accomplished in conjunction with developing and implementing some of the DFAS standard systems, such as the Defense Civilian Pay System, the Defense Retiree and Annuitant Pay System, the Defense Joint Military Pay System, the Defense Transportation Payment System, and the Defense Debt Management System. These systems did not merely automate old processes; they reengineered the processes first for the affected functional areas. More studies are underway in evaluating alternative standard accounting systems. DFAS also has Business Process Reengineering initiatives currently underway in the areas of contract payment and pay garnishment. DFAS fully intends to initiate classic overall Business Process Reengineering studies in the future. However, the period of time necessary to conduct such studies and implement the recommendations would have delayed the consolidations and achievement of the anticipated savings.

Finally, while not a classic full-scale Business Process Reengineering review, the Defense Finance and Accounting Service is the first Federal Agency to perform a Commercial Activities cost comparison study (Office of Management and Budget Circular "A-76") in the Financial Management area. The initial functional areas under review are logistics, administration, and debt management and collection (out-of-service and contractor debt). The objective of the comparison will be to determine the most cost effective means of providing these services, either by DoD employees or commercial vendors.

GAO STATEMENT: Ms. Heivilin stated that GAO looked at outsourcing freight bill payments to achieve significant savings through reengineering processes.

DFAS RESPONSE: In a November 1993 report, GAO asserted that substantial savings could be achieved through outsourcing. Their report focused on bill payment and did not take into consideration procurement processes; transportation codes management; customer service; the administrative review and management of carrier bills; the disbursing, accounting and reporting of government funds; or recovery of claims against the carriers. Some specific functions not included in contractor proposals included: payment of personal property bills, government transportation requests, government meal tickets and the audit of fiscal codes. Some nonpayment functions not in the contractor proposal included: adjudication of transportation claims, transmission of information to Debt/Claims Management, Military Traffic Management and the General Services Administration. As such, the report did not include the residual DoD staffing requirements necessary to support the contractor or to manage these additional functions.

However, what GAO did not consider in its evaluation is included as a part of the Department's transportation procurement and payment reengineering effort. This project is nearing completion. It provides the linkage of automated systems through electronic data interchange (EDI) from the origin shipping activity through the rating and routing process to the billing carrier and ultimately through the billing payment process. This system will provide greater visibility of the transportation, procurement, delivery and payment process and significant savings when fully implemented.

GAO STATEMENT: In a number of areas throughout the text of the testimony, GAO voiced concern regarding the Department's accounting systems.

DFAS RESPONSE: DoD is committed to, and has undertaken, a major effort towards improving accounting systems in the DBOF. There is in place a phased program to reduce the 80 current systems and improve the financial management capabilities of the remaining selected systems. These improvements include meeting DBOF, CFO and Federal Managers Financial Integrity Act identified deficiencies. DoD has identified and evaluated the best systems currently available. Expert teams performed the evaluation of the candidate DBOF accounting systems, analyzing them for both functional and technical capabilities. On the basis of the results of these evaluations, seventeen systems were recommended as interim DBOF accounting systems. Conversion to these interim migratory systems will result in the elimination of up to 60 various DBOF accounting systems that are currently being used today.

We are conducting cost analyses on eleven systems and economic analyses on two business areas. These analyses are required to be completed before the decisions to make improvements can proceed on these systems. Milestones for enhancing and deploying each selected system will also be developed as part of the analysis process. In addition, the current systems in two business areas will be replaced with approved commercial off-the-shelf financial systems.

Upon completion of the cost and economic analyses on the internal DoD systems, investment decisions will be made on the improvements to these systems and their deployment to replace current systems. DoD believes that this phased approach will facilitate and expedite the improvement of the capabilities of DBOF accounting systems to meet the financial and management information needs of DoD and its customers.

GAO STATEMENT: GAO stated that DBOF was intended to improve the accuracy of the cost information, but it has not done so.

DOD RESPONSE: This general conclusion by GAO does not recognize the significant financial changes that occurred when the Defense Business Operations Fund (DBOF) was initiated in October 1991. At that time the existing Stock Funds and Industrial Funds of the Military Services, the Navy R&D activities and the Service Transportation commands were combined under the DBOF. When these functions were combined, they were placed on a full cost basis, and customer rates were established to fully recover the actual cost of operations. Prior to DBOF the expenses associated with many base support functions, military pay, depreciation, and other costs were either separately funded or not directly associated with the service provided by the business to the customer. The addition of these costs increased customer rates but also, for the first time, provided decision makers a more complete picture of the actual costs of the goods and services provided. The DBOF was designed to focus on cost control and to initiate sound business management practices. These fundamental goals have been achieved for each of the twenty-seven business areas now included within the Fund.

Also, in the Defense Business Operations Fund (as well as all other DoD financial programs), we have embarked on a long-term, comprehensive effort to standardize and modernize our accounting and financial systems. DoD currently operates hundreds of separate accounting and financial systems. Within DBOF numerous separate accounting systems are now operating even among the business areas of each individual Service. Often, the accounting system and procedures change even between activities within the same business area, such as shipyard to shipyard. We are moving to correct this by establishing standardized systems and interfaces both in the logistics management and financial management areas. Additionally, we have revised and standardized our accounting and budget policies within DBOF, and

initiated new execution reports and procedures to improve the timeliness and accuracy of financial data.

GAO STATEMENT: GAO stated that one of the primary objectives of the DBOF system was to reduce the amount of cash that was needed by consolidating the funds. DoD is now decentralizing cash management -- a move backwards, which will result in the need for more cash.

DOD RESPONSE: The primary financial management focus in the DBOF has been, and continues to be, cost control. Based on experience gained during the first three years of DBOF operation, the Department has determined that cash management responsibility must accompany cost management responsibility to maximize effectiveness. Unless the Military Components have concurrent responsibility for both cash management and cost management, unlimited and unplanned cost growth can occur in a business area. Therefore, the Department returned cash management responsibilities to the Military Components, effective February 1, 1995, to improve operation of the Fund and to increase the focus on cost control.

When the Department centralized DBOF cash management, it believed that it was more important to require financial managers to understand and manage their costs than to manage cash flow. The Department's objective, then as now, was to promote cost awareness. After managing cash for several years at the USD (Comptroller) level, it was determined that the USD (Comptroller) staff had only remedial, after-the-fact, capability to adjust cash levels. In addition, the USD (Comptroller) had limited preventive capability to preclude cash going below minimum levels because the operational control and actions that are taken by each DBOF activity and result in cash disbursements and collections always have resided, and continue to reside, with the Military Components.

Returning cash management responsibility to the Military Components was implemented by dividing a single Treasury account into five subaccounts. It is too soon to determine if additional cash will be required by the Military Components. However, some Military Components have initiated advance billing procedures to provide increased levels of cash until they gain additional experience. The FY 1996 budget anticipates terminating advance billing by the end of FY 1996.

GAO STATEMENT: GAO stated that DoD reported that the value of the centrally controlled inventory was \$77.5 billion, of which GAO contends that \$36 billion was not needed for war reserve, or for current operating requirements (defined as two years' operating requirements).

DOD RESPONSE: It is correct that DoD had \$77.5 billion in secondary items in FY 1993 (though one year later that number has been reduced to \$73.6 billion). It is not correct to state

that \$36 billion is not needed. DoD has repeatedly attempted to correct GAO's misunderstanding in this area.

DoD categorizes its inventory at least annually and applies a test whether demand forecasts predict that inventory will be needed within the current budget year. \$36 billion is the value of the inventory portion that is greater than the demand forecasts value. However, GAO is disingenuous to say that this inventory is not needed. The inventory has a high probability of use after the budget period, and it makes good, economic, sense to retain it in inventory. The \$36 billion includes inventory retained for contingencies and, subject to periodic review, it makes good, economic, sense to retain it in inventory.

There are two additional facts relative to the inventory that are sometimes not understood. First, large portions of the inventory represent repairable items that may have been used and repaired multiple times but that still count in inventory. It is not as though all the \$36 billion in parts were bought too early, an impression one could get from GAO's presentation. Secondly, Defense is downsizing and significant reductions in inventory are being recorded. Reductions to units and the principal items they fly, steam, or drive has decreased the demand for the inventory items that supported the previous, larger, force. When this happens, inventory managers need to make decisions on whether to retain a portion of the new excess inventory or to dispose of it. Either choice makes sense in certain situations, but neither choice consumes significant amounts of defense resources. Basically, it makes no sense to sell an item for 2 cents on the dollar and then have to replace it within two to three years. GAO analysis in this area is, at best, specious.

GAO STATEMENT: GAO stated that DoD has resisted using a supplier park concept, even though benchmarking of private sector firms shows that this could save money and allow large reductions in inventory for consumables. GAO states that 77 percent of the consumable inventory would fall under this area. The supplier park concept is where key private vendors are asked to maintain small warehouses close to the customer's plant, much like a prime vendor.

DOD RESPONSE: Supplier parks seem to offer the prospect of more responsive and cheaper inventory support for customers. DoD is interested in, and now researching a spectrum of tailored logistics support initiatives such as supplier parks. Where it can be demonstrated that new logistics approaches will add efficiencies, these new programs will be implemented. At this time, DoD does not share the opinion that supplier parks will apply as universally as GAO seems to believe. Limited use of relationships similar to supplier parks are already in place in DoD. For selected items such as small populations of aircraft, special direct manufacturer support arrangements have been

established which are similar to the supplier park concept. DoD is also testing similar tailored logistics support relationships in support of some depot maintenance activities. However, other initiatives such as direct vendor delivery, just-in-time supply techniques, and reductions in total logistics pipeline delivery times appear to offer greater potential cost savings.

GAO STATEMENT: GAO contends that the inventory practices of DoD, such as storing stock in multiple organizational layers between the supplier and end user, leads to large amounts of old, obsolete, and excess items.

DOD RESPONSE: GAO has ignored the improvements in DoD inventory management made by the DoD over the past five years. Inventory reduction programs introduced in previous fiscal years have continued, and DoD has reviewed its practices and identified new initiatives to reduce inventory and costs. Past initiatives include the consolidation of management of consumable items at the Defense Logistics Agency and the elimination of inventories held at intermediate levels between the wholesale inventory and the user. Consistent with GAO recommendations, DoD is moving to direct vendor delivery of supplies to eliminate unnecessary storage and handling. To track inventory, DoD introduced Total Asset Visibility which allows the inventory manager to track an item throughout the DoD including items held by the user, thus allowing reallocation of assets and preventing premature reorders.

All the Services have plans to reduce the time required to contract for supplies, thus, reducing the amount of inventory needed to be held on hand. The DoD has emphasized to inventory managers the need for improved inventory management and included inventory management goals in the performance objectives of inventory managers. Allowance lists for ships and aircraft are under review to insure only currently needed items and quantities required are listed on the approved lists. In addition, inventory managers use items returned from decommissioned ships and aircraft to satisfy current requirements. Changes in contractual practices are underway to increase the flexibility of item managers to purchase items more quickly and with less paperwork. Electronic data interchange will be used to the maximum extent possible to speed and to simplify contract purchases. When appropriate and cost-effective, DoD terminates contracts for items which are no longer needed.

The DoD is moving to rely less on military specifications for supply items and more on commercial off-the-shelf items. Also, DoD is using ongoing programs, such as value engineering, to provide lower costs while improving item performance and supply availability. In addition, through the base closure program and other management consolidation initiatives, DoD will reduce the cost of the management of the supply system. These initiatives, in concert, will reduce the DoD inventory, improve

the management of the supply systems, and promote more effective use of scarce financial resources. Based on these initiatives, DoD has reduced its inventory from \$109.4 billion in FY 1989 to \$73.6 million (\$71.7 billion in constant FY 1993 dollars) at the end of FY 1994. The Department's goal is to reduce inventory to \$50 billion (constant FY 1993 dollars) by the end of FY 2001.

GAO STATEMENT: GAO contends that infrastructure reductions, particularly in high cost areas like depot maintenance, inventory, and finance, have not kept pace with the force downsizing.

DOD RESPONSE: DoD does not agree that infrastructure reductions in high cost areas are not keeping pace with force structure changes. The force structure reductions primarily began at the end of Desert Storm and infrastructure reductions began shortly after. The phasing was done to provide the necessary support required following a conflict such as Desert Storm. Of major importance was the refurbishment efforts required on equipment utilized during the conflict. The refurbishment efforts have taken over 3 years to accomplish and now the downsizing effort in depot maintenance is in full swing. DoD programmed civilian personnel reductions are 32% between FY 1990 and FY 2001, compared to the military drawdown of 33.5% which will be completed by FY 1999. This represents the built-in lag discussed above.

The base closure process, established by the Congress, also includes necessary but lengthy delays that have contributed to the time required to downsize the DoD support structure. The ongoing base closure efforts since 1988 have actual reported savings to date of over \$2 billion, of the total projected savings through phase III of \$16 billion. This represents a good start on this extensive effort. The GAO statement on unrealized savings from property sales is correct, as far as the statement goes. The original savings projections by DoD anticipated from the sale of real property have been significantly altered by actual experience, environmental clean-up costs not originally included, and base closure policies enacted by Congress. The sale of property has also been significantly affected by the McKinney Act and President Clinton's initiative on revitalization of the affected communities. The Department recognizes the importance of these national priorities even though these policy changes have contributed to a reduction in anticipated sale revenues.

In addition to base closure efforts, many consolidation efforts are also underway in the Department such as the consolidation of 44 data processing centers into 16 megacenters, and over 300 finance and accounting centers consolidating into 5 large regional centers and 21 operating locations. Additionally, other reengineering efforts of functional processes are ongoing in all functional areas discussed in the

GAO statement including depot maintenance, inventory, and finance.

GAO STATEMENT: GAO stated that restructuring Defense transportation could result in additional savings of between \$500 million and \$1 billion.

DOD RESPONSE: DoD is not aware of any existing analysis or study that demonstrates potential savings of this magnitude in the transportation area. We have attempted to obtain additional information on the basis of this GAO estimate of savings. It appears that this claim of potential savings is only an initial, unsubstantiated estimate. GAO has indicated that the establishment of TRANSCOM constituted only the creation of an additional administrative layer. That statement indicates that GAO does not understand the mission assigned by the Secretary of Defense to TRANSCOM. TRANSCOM was assigned responsibility as the single manager of common-user defense transportation in peace and wartime. Service Components continue with their responsibility for Service unique transportation as well as their overall responsibilities to organize, train, and equip the forces within their Service. These responsibilities require the continuation of separate Component commands that report to TRANSCOM for common-user transportation and to their Service for Service-unique transportation. TRANSCOM was not formed because of the failures or weakness of its individual Components but to optimize their strengths and provide wartime traffic management and deployment execution and control. Further, the success of these efforts have been demonstrated to the world by Desert Storm and other international relief operations, where DoD clearly sets the standard for large-scale logistics support.

However, TRANSCOM is continuing to try to improve on this record of success by addressing the need for reengineering of transportation processes through development of the Defense Transportation System 2010 Action Plan. Organizational inefficiencies are being reviewed and streamlined as part of this implementation process. The TRANSCOM budget submission already contains productivity savings identified as part of this effort.

GAO STATEMENT: GAO stated that extensive analysis exists that indicate \$20 million - \$30 million may be saved in DoD printing and duplication operations through infrastructure changes.

DOD RESPONSE: These savings are achievable over the next six years only if the Government Printing Office (GPO) follows the GAO recommendation and uses term printing contracts with commercial vendors to execute DoD printing orders. Currently, the Defense Printing Service (DPS) sends all printing which is neither classified nor urgent to GPO for execution. As part of its own downsizing of DPS infrastructure, DPS plans to increase the amount of printing which it sends to GPO. The FY 1996/7 President's Budget reflects this increase in contracted

printing, and the savings associated with increased contractor support use have been passed on to the customer through lower prices. In addition, the DoD is currently reviewing printing functions that were retained by the Services and that were not merged into DPS. Anticipated annual savings of \$4.2 million that would accrue when these printing functions are merged into DPS are reflected in the FY 1996/7 budget beginning in FY 1997. DPS, since its inception in FY 1992, has significantly reduced infrastructure. DPS has eliminated 1,400 personnel spaces, closed 79 facilities, vacated 350,000 square feet of space, eliminated 2,200 pieces of production equipment, and increased use of private sector printing via GPO by 15 percent. By the end of FY 1995, DPS plans to reduce staffing by an additional 500 civilian personnel, close an additional 44 facilities, and increase contracted printing to 70 percent of work load. FY 1994 contracted printing represented 54 percent of work load.

GAO STATEMENT: GAO contends that the Depot Maintenance structure has not led to substantial competition, interservicing, or reductions in capacity.

DOD RESPONSE: As we have noted above, the Depot Maintenance functions within DoD underwent a surge of activity following Desert Storm. Congress increased work load and funding to finance the refurbishment efforts required on equipment utilized during the conflict. The refurbishment efforts have taken over 3 years to accomplish. However, contrary to the GAO statement, the downsizing efforts in depot maintenance are now in full swing. Within the Depot Maintenance business areas work load levels and staffing have been reducing since FY 1991. Work loads have declined 25% - 35% in most business areas, while the total civilian end strength level has declined from 175,113 in FY 1991 to a projected 92,336 at the end of FY 1997, a 47% reduction. Of this reduction 10,577 will occur during FY 1996 and FY 1997. These major reductions coincide with the complete closure of the 10 major depots and the partial closure of an additional 2 depots. Further, an additional major depot and another naval shipyard have been proposed for closure during the FY 1995 Base Realignment and Closure process.

Additionally, at the direction of Congress, all decisions on reorganizing Depot Maintenance functions were deferred until an extensive study was conducted and reported to Congress. This comprehensive review was conducted and the report provided to the Congress in April 1994. As part of this initiative, and concurrent with the FY 1996 budget request, the Department has made a series of legislative proposals, established a new comprehensive definition of CORE depot maintenance functions, and initiated an extensive interservicing program. However, Congress subsequently directed another study be conducted in FY 1995.

Interservicing efforts have now reached 8.4 percent of all work load, and centers of technical excellence have been

established in each of the Services to take the lead in selected Depot Maintenance functional areas in the future. However, the DoD primary effort has been in downsizing the overall depot system to match required work loads.

Secretary HAMRE. Yes.

Mr. BATEMAN. We want to make sure that we have the other point of view. I don't know about the feasibility of another hearing.

Secretary HAMRE. I know that.

Mr. BATEMAN. But, indeed, we do invite you to return to discuss this very complex issue.

Secretary HAMRE. Thank you. I really do appreciate that.

Mr. SISISKY. Save us \$3 or \$4 billion, and we'll have another hearing.

Secretary HAMRE. That's the only part I thought you'd like to hear. I don't know where it would be, but I'd be glad to hear it.

**STATEMENT OF JOHN J. HAMRE, UNDER SECRETARY
(COMPTROLLER), DEPARTMENT OF DEFENSE**

Secretary HAMRE. May I begin first with a thank you. That thank you doesn't come from my current job, but it comes from the job I held previously when I was on the other side of the Hill. I remember going to conference with the House, and I remember 10 years ago before it was ever popular to talk about readiness, this subcommittee was on the forefront fighting for readiness.

This was 10 years ago, back when there wasn't a readiness problem; it's been a long struggle. There's no committee or subcommittee in the Congress that has fought harder for the readiness of our Forces—soldiers, sailors, airmen, and marines—than this subcommittee. I enjoy that support now as the Comptroller, and we are very thankful for what you've done.

It's for that reason that I would like to talk about what I think is the biggest problem we face now. It's something I had the pleasure of discussing with you yesterday, Mr. Chairman, and that is this issue of how to refinance contingency operations.

There is probably no more serious issue that we face and, frankly, a harder one because what we're dealing with here is at the core of the Constitution. Like it or not, and I like it, we designed a government that was evenly divided between an executive branch and a legislative branch, but the Founding Fathers at the time realized that they had to bring both sides together to get anything done.

So it was deeply divided to represent the change of perspective and difference in perspective. After all, I think three-fourths of the people who signed the Declaration of Independence did not live till the end of the war, and many of them died violently.

They said, we'll never have that again, so they divided this Government, and a President could not act unilaterally without Congress going along with it. They gave the power of the purse to the Congress, and they gave the power of the rulemaking authority to the President.

What we're talking about for contingency financing is at the core of that problem. We have set up a system where we are not, by law, allowed to execute anything in the Department without getting funding from you in advance, and we get funding for the operations of the Forces a year in advance. By law, I'm not allowed to ask for funds from you for an activity that I can't identify as being a bona fide need in that fiscal year.

For some contingencies, I can look out 18 months in the future and say, yes, there's a probability that we'll be there. But, for a lot

of them—we had no idea we were going to be in Korea last year when the thing popped up the way it did and we sent two carriers there. We had no idea that in September we were going to be mobilizing 175,000 military personnel to Kuwait. We had no idea about that.

So it's very hard for us, we can't budget in advance for that. And now we get to that friction spot in the Constitution between a President who needs to be able to act on short notice and send troops to Kuwait, and to congressional prerogative, and it's enshrined in the Constitution.

I worked on the other side of the Hill, but I worked for the Congress for 15 years. I honor that, and our country is much stronger for it. Then at the core is this problem of how do we finance contingency operations? We have underway right now, six operations that are costing us \$200 million a month. That money is not in our budget. We do not have the funds in our budget for that. We have submitted a supplemental. You all voted on that supplemental a month ago, and the Senate finally concluded action last week, and now you're in conference on it.

Mr. BATEMAN. Let me tell you that I was off the mark yesterday when I gave you such pessimistic forecasts. It appears the logjam is broken and, hopefully, we may have action on that.

Secretary HAMRE. Well, I hope so, sir. You frightened me yesterday.

Mr. BATEMAN. It's been frightening me.

Secretary HAMRE. And right now our only mechanism to fund the contingency is to come up here after the fact to seek supplemental funding. We could do it through reprogrammings, but with the programming process—we have to go to each of the four committees in the series. It's very much a negotiational resource, and it's very difficult to do that.

After our discussion yesterday, Mr. Chairman, you asked me to think through what are some various ways we could deal with this, because this is a problem that goes back 210 years, and this is at the core. We have never figured this out as a Government.

So I started thinking, and I went through this last time. What are the various ways we could deal with this? Well, we have the current way which is to kind of muddle your way through. You get involved, and by the way I know that part of the problem here is that an operation like Haiti comes up where there's deep disagreement over whether that's a good idea or a bad idea. I'm not in the policy business, and it's not mine to judge if it's a good or bad idea. I'm just a bean counter, I think, Mr. Cunningham.

But setting aside that issue, and I know that what's at the core is that you're trying to find a way to become full participants up front in the making of those decisions. And that is an honest, legitimate constitutional question. You should do that.

Unfortunately, what we've taken are these gunsmithing issues about how to finance it and turned that into the constitutional way, because we can't agree on the principles up front. So let me go through what some of these gunsmithing solutions are that we could use, because I can't address this constitutional question. But I honor it, and I think that is at the core.

One is, we can do what we're doing now. We can just kind of muddle our way through it. It's a very unhappy situation. That's what happened to us last year. I'll never forget it. It was a Saturday afternoon last August. I was called in by the Secretary, and he said, the Haiti thing is coming up. Do we have enough money? We were counting, and we were running out of money. We didn't have enough money to get through the fiscal year.

Part of that was because the underlying 1994 budget wasn't sufficient for O&M. We had readiness problems in 1994, as you know. And with that operation coming up he said, how do we do it? Do we muddle through or pay for that operation? We paid for those other contingencies, and we paid for it on the readiness of the rest of the Forces. We suffered a loss last year, and that's something we can't have again.

That's where we are now. Fortunately, we're getting help from the Congress, and really do appreciate all of your support. Your support for that supplemental is very important.

Another approach is to provide a contingency fund in some form. Mr. Chairman, you had mentioned, for example, setting aside 1 percent of the O&M budget, or something like that, and I know that was just a hypothetical.

There are some things we like about that because, obviously, it doesn't mean you have to disrupt the rest of your training program in order to be able to carry out an operation. In the past, we've had a lot of difficulty getting funds appropriated for a contingency where you don't specify what it's going to go for up front.

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Statement of
Under Secretary of Defense (Comptroller)
John J. Hamre

Before the
House Committee on National Security
Subcommittee on Readiness

Financial Management and
Contingency Operations

March 23, 1995

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UNDER SECRETARY OF DEFENSE (COMPTROLLER) JOHN J. HAMRE
STATEMENT BEFORE THE HOUSE COMMITTEE ON NATIONAL SECURITY
SUBCOMMITTEE ON READINESS
March 23, 1995

FINANCIAL MANAGEMENT AND CONTINGENCY OPERATIONS

Mr. Chairman, members of the Committee, I am delighted to be here to assist your examination of efforts by the Department of Defense (DoD) to improve its management, particularly in the financial area--to include the funding of unbudgeted contingency operations. With this being the Subcommittee on Readiness, I will begin my statement with the greatest spending challenge to our ability to keep America's armed forces ready to fight, and that is the funding of contingencies.

THE DIFFICULTY OF FUNDING CONTINGENCY OPERATIONS

Last year's defense budget provided strong support for readiness, and this year's request will be stronger still. However, events of the past year have shown how readiness can erode, even when annual defense appropriations are sufficient. The problem stems from unbudgeted contingency operations, and the timing of reimbursements--combined with legal and fiscal restrictions on our flexibility to manage their costs.

Over the years the Congress has been asked to approve supplemental appropriations to help the Department cover its costs for such unbudgeted security and humanitarian missions, and the response is nearly always favorable. However, supplemental appropriations often are not approved in time to prevent an erosion of force readiness, which is what happened at the end of the last fiscal year.

One of the questions we are often asked is why the Pentagon cannot absorb these contingency operations costs. After all, out of a total DoD budget of \$253 billion, our estimated \$2.6 billion in FY 1995 contingency costs is only one percent. Well, we might be able to handle more of the burden if Department leaders had the entire year and the entire DoD budget to work with. Such is not the case, however. The Defense Department's ability to limit the readiness impact of unbudgeted contingencies is restricted primarily by several legal and financial restrictions. The effect of these restrictions is that, without adequate supplemental appropriations well before the end of a fiscal year, unfunded contingencies can only be paid from Operation and Maintenance (O&M) funds for that year, and that will likely hurt readiness.

The vulnerability of readiness to O&M cuts is magnified by the fact that DoD has little or no flexibility to divert funds from many programs in O&M accounts. In FY 1995 nearly half of the O&M budget is practically off limits as far as contingency costs are concerned--because it funds civilian pay, health programs, utilities, and other activities in which we have little flexibility. Another 20 percent of O&M accounts is potentially available, but only if Congress authorizes a transfer of funds. Practically speaking it would take months to tap these funds because of reprogramming limitations, and so they have often been of limited value in shoring up readiness.

In fact we only have genuine flexibility to tap the 30 percent of O&M monies that are appropriated for operations and training activities, depot maintenance, and operations support and transportation. For FY 1995 these flexible O&M funds total \$27 billion; diverting \$2.6 billion or 10 percent from them would clearly make a big difference.

Moreover, \$2.6 billion would be 40 percent of the FY 1995 last quarter's flexible O&M. That large percentage conveys the true impact of contingency operations costs: late or inadequate supplemental appropriations create chaos for operations, training, and readiness late in a fiscal year. Without supplemental funding in hand, DoD leaders and military field commanders must prepare to take drastic steps well before the end of the budget year. Training must be cancelled, maintenance deferred, supplies allowed to dwindle, and more.

PREVENTING CONTINGENCY-RELATED READINESS PROBLEMS

What then can be done to prevent contingency operations from hurting readiness? Part of the answer obviously is full and prompt funding of supplemental appropriations. For example, if FY 1995 DoD supplemental appropriations are enacted by the end of this month--the mid-point of the fiscal year, then damage to readiness can be avoided. Otherwise, each passing week makes it more and more difficult for us to protect readiness. We appreciate the fast action by each house's Appropriations Committee, and now we urge rapid final approval of the bill.

In addition to prompt passage of supplemental appropriations, the preservation of readiness requires a new legislative authority to deal with contingency operations. The Administration has asked the Congress to grant the Secretary of Defense limited new authority to enable him to protect readiness

more dependably in this and future years. This "readiness preservation authority" would operate like overdraft protection on a checking account. It would not give DoD more money. It would merely let DoD protect the readiness of operating units by allowing us to obligate funds in excess of appropriations. The authority applies only to the third and fourth quarters--when there is less flexibility in the O&M accounts. The new authority also provides for rescissions to pay for any use of the authority--unless the President determines that emergency conditions exist that preclude such rescissions, in which case supplemental appropriations could be requested.

We were very disappointed that neither Appropriations Committee approved this new authority. Our recourse now is to urge the two authorization committees to grant the Secretary of Defense this much-needed tool to protect the hard-won readiness of our armed forces.

FINANCIAL MANAGEMENT REFORM

Next let me give you an overview of our financial management reforms. The Department of Defense is in the midst of the most comprehensive reform of DoD financial systems and practices in its history. This reform is driven by two pressing needs: first, the need to overcome decades-old problems in financial management systems and procedures; and second, the need to lower administrative costs by fundamentally redesigning the Department's fiscal operations and streamlining the related infrastructure.

During the past year, the Department has refined and advanced its blueprint to eliminate these long-standing problems. Some of the elements of the reform blueprint predate this Administration, while many were initiated by us. In our discussions I can elaborate on reforms of special interest to you, but in this statement I will just highlight key elements of our blueprint.

The establishment of the Defense Finance and Accounting Service (DFAS) in 1991 was a giant step forward for the streamlining of DoD's financial systems, and DFAS has now become a pivotal agent for key financial management reforms. A major DoD streamlining milestone was last year's announcement of 26 sites selected for consolidation of DFAS operations. Streamlining operations into fewer locations will better enable DFAS to focus its energies on the main challenge: the consolidation and standardization of DoD's main finance and

accounting systems. We are making real progress on this challenge, but it is necessarily a long-term effort.

One of DoD's most important reforms aims to prevent unmatched disbursements. The key will be to require the validation of proposed payments with the corresponding obligation data in official accounting systems prior to making payments. That is a very bold proposal, but we are determined to make it work.

Another key reform is to reengineer DoD business practices--to make them simpler, more efficient, and less prone to error. Our major focus is on the interaction between financial and nonfinancial systems--for example, between procurement actions that generate contract payments and the financial systems that make and account for such payments. Improving this contract payments process also will support DoD's efforts to reform its acquisition system, streamline infrastructure, and save money.

Other elements of our reform blueprint include substantial work to improve the Defense Business Operations Fund (DBOF), to strengthen internal controls, and to standardize financial management data and concepts. Rather than elaborate on these, let me stress that my staff and I would be delighted to provide you with extensive information on our plans and progress in any of these reform areas.

In toto this blueprint for financial management reform constitutes an ambitious agenda, and the Department of Defense leadership is determined to carry it out.

CLOSING

In closing, I want to emphasize that our department is moving aggressively to improve its management, most notably in the areas of acquisition and financial management. We also are working hard to preserve the superb, hard-won readiness of our armed forces. Much of what we must do can be handled within our Department. But in several crucial areas, problems cannot be overcome without the support of oversight committees like this one. In particular I highlighted our great need for a new readiness preservation authority. I welcome your comments and questions on our proposal, as together we seek the best ways to ensure the preparedness and quality of U.S. forces.

Mr. BATEMAN. Therein lies the problem.

Secretary HAMRE. For example, if you were to give a contingency fund, does that constitute a blank check endorsement to do a Haiti operation? You would say "no." You wouldn't want that to be the case.

Mr. BATEMAN. I would be very fearful that would be what would happen.

Secretary HAMRE. Exactly. Historically, the Congress has been loathe to provide contingency funds. We have been reticent about contingency funds for a different reason, and that is that every time the subject has come up, invariably you said, well, we'll give a contingency fund, but you can't spend any money from that until you get permission from us.

That goes to the core of this constitutional issue. As you know, I'm your comptroller at the Department of Defense. When the President of the United States calls the Secretary and says we're going to Kuwait, whether it's to make war or to make peace, it doesn't matter to me. That's my Commander in Chief's order.

Mr. BATEMAN. Well, carrying on a dialog about the possibilities here—certainly I'm not bespeaking your position—but, rather than see what happened in recent years happen again, assume Congress said we'll provide you a contingency fund but you can't use it without prior congressional approval.

You say that presents a constitutional problem, but does it really do so? Because we would not have denied you the authority if the President were bound and determined to go off and do a Haiti or some operation that he could not do and you could have recourse to those things which you're now doing. But after consultation, and after convincing the Congress, you could at least repay the accounts that you had to resort to.

Secretary HAMRE. Sir, again I'm not a policy person, and you're really asking a much larger, more important question than the comptroller can answer. But, I think we need to say, do you want to encumber a President to think about a contingency operation in advance and say, I may need to go arm wrestle with Congress first before I can go ahead and do that?

Mr. BATEMAN. I'm not too concerned about that. I would be concerned that we deny him his constitutional prerogatives as Commander in Chief and I'm not even an advocate of the War Powers Act. But I'm not prepared to provide him with a fund to conduct contingency operations without prior approval under the Constitution.

Secretary HAMRE. I think therein lies the central problem—that the Congress historically has wanted to grant a contingency fund only if it can't be spent without getting permission in advance, and there hasn't been a President that has agreed to that.

Mr. SISISKY. You're exactly right.

Secretary HAMRE. Republican or Democrat. I did my doctoral dissertation on the War Powers Act and the congressional role during the Vietnam war. We have 113 times in one Congress alone when people tried to use the power of the purse to stop it, and you can't get that agreement together when you're under fire. It's a very serious issue. So this is like contingency funds; attractive in many ways, but there are so many serious limitations.

Again, it's one of the ways that we could go. Another way is, there is a fund that Congress has given to the Department in the past. It's a small fund. This was called a no-year fund. It was a fund where there wasn't an expiration date on the dollars as there is on most appropriations, and it's called the defense emergency response fund.

It was given to Congress when we had the *Exxon Valdez* incident up in Alaska, and it was designed to give us spending money to go up and help on clearly a domestic problem and then get reimbursed. And, it was after the fact. We used it the first time with Operation Sea Angel, which is when we provided about \$5 million worth of assistance in Bangladesh. Remember when that typhoon came ashore?

We used it in Haiti last year, because it was the only source of funds I had that was readily available that didn't disrupt underlying training programs for the forces. But, historically, it's been a very small account, about \$100 million. Now, that would be enough to take care of our costs in Korea last year, but nothing else. I mean, our costs are very large. But that is an option and, of course, it has the same kind of problems that contingency funds tend to have. But that is also an option.

There was another option that Mr. Sisisky had authored to let us use funds out of DBOF, the cash balances in DBOF. I remember we felt that there were some limitations or constraints. I think the biggest problem is that if you start financing something with one appropriation, you cannot stop and then finance it from another appropriation by law.

So, it's very difficult to get started with cash balances that occur in DBOF and then all of the sudden when you run out of that you can't, by law, start spending O&M dollars on it. So, there were some engineering problems that came with the approach but, again, it was a very serious, thoughtful approach to the problem.

Mr. BATEMAN. But if that has potential as a superior methodology, we can fix legal constraints that——

Secretary HAMRE. Yes, sir.

Mr. BATEMAN [continuing]. Make it inoperative.

Secretary HAMRE. It wasn't the only problem from the Department's perspective. Part of it required us to declare a national emergency in order to exercise that authority. There were other things, and I would like to formally let you know why we thought some of that was a good idea and some of it wasn't.

Mr. BATEMAN. I'd like very much to have that.

Secretary HAMRE. I will do that. Then there's another approach, which is what we're asking for, and I know we've gotten mixed review of this. And that's not to seek funds, but to seek financing authority. In this instance, we've patterned it after the Food and Forage Act, and we're simply saying, let us, in essence, borrow from our own unobligated balances to spend on the contingency operation so as not to wreck the readiness of the other forces.

In other words, we won't finance the readiness of an operation by taking training dollars away from other units. We'll borrow against our own unobligated funds, and then we will come back the following year to liquidate that liability. We will either ask for an

appropriation, or you can tell us to rescind funds and appropriate it, or we can reprogram it.

We can engineer the solution, do it later, but we're not asking for more money. It's not a raid on the Treasury, and it doesn't force us to take funds and down the training activity of all the other units in the military in order to finance an operation when you're talking about large sums and contingency operations.

So, we would like to follow up with you on that. We think the advantage of this approach is that it is perfectly neutral on this constitutional question. It gives the President no more authority or power than he has right now, and it gives you no less power or authority than you have right now, as long as we're operating in a world where there are advance operations with no contingency fund. So, that's as much as I wanted to say on this subject, and I, of course, would be very happy to answer any questions.

Mr. BATEMAN. On the latter methodology, the contingency funding, would you send us a point paper on that?

Secretary HAMRE. Yes, sir.

Mr. BATEMAN. One that lays out your best case you can make for that methodology?

Secretary HAMRE. Yes; I'd be very happy to do that.

Mr. BATEMAN. We will certainly look at it.

Secretary HAMRE. Yes; I know you will.

Mr. BATEMAN. We also have discussed the phenomena that I found troubling, and I'm not sure I fully understand what the problems with it are, but when the President makes the determination to go off and do a contingency—and I'm not saying it's a good or bad contingency; it happens—it is certainly my inclination from talking to numerous other witnesses that the particular command, or the particular branch of service, who are tasked to do that particular contingency are pretty well left out there, at least early on and perhaps for some period of time, to identify funding sources of their own in order to take care of what they are tasked to do and can't do otherwise.

Secretary HAMRE. Yes, sir.

Mr. BATEMAN. I am concerned that the amount of discretionary money in any given service, certainly in any given command, is so much less than the discretionary sums available at the DOD level that when the contingency arises we should not be requiring that someone opposite the Secretary of Defense start identifying the most practical billpayers that have the least negative implication upon readiness and the ability of the services to perform their missions and to have the least impact upon their approved budgetary operation.

Secretary HAMRE. Yes, sir.

Mr. BATEMAN. I'd like to know why we can't move that kind of—

Secretary HAMRE. Well, that is another method I should have mentioned. Right now our practice is when Congress authorizes and appropriates O&M funds, we distribute those funds directly to the Services. We do not withhold any of the funding. Each of the Services at headquarters level will then further allocate it to subordinate units, so there will be a resource sponsor, or there will be a major command—

Mr. BATEMAN. Well, you turned it almost all over.

Secretary HAMRE. We turn it all over.

Mr. BATEMAN. But maybe you need the power to reach out and recoup some of it based upon a macrolevel decision instead of it being a microlevel decision.

Secretary HAMRE. Yes, sir. And, sir, I can do that. I have the authority right now to recall funds from the Services' O&M funds. What that means is that the moment I do that, I create a readiness problem, because they're going to have to accommodate that in the field the moment I do that. If, all of sudden, I pull back \$500 million of O&M funding from deployed Forces, what do they have discretion on? They can't stop operating the day care center. They can't stop paying rent. They can't stop paying for the health care costs in their command. They can't stop the DOD schools overseas.

Mr. BATEMAN. Well, they have that same problem if you're making them do it service by service.

Secretary HAMRE. You're absolutely right. The way we do it right now, all of us, is we bet on the future that we're going to get your help with the supplemental. And what they are doing is they're managing, and that's where we come down to—we'll manage this problem because we're borrowing from the fourth quarter of the fiscal year, and we will bet on the account.

Mr. SISISKY. But if you were using the unobligated funds, you could take care of that problem?

Secretary HAMRE. No, sir; but here's the problem. Unobligated funds—90 percent of our contingency operations are O&M costs, but there are no unobligated O&M bills in the future. I mean, O&M lapses after the first year, so if it isn't obligated the first year it doesn't exist after the first year. So, I have no unobligated balances in O&M.

Mr. SISISKY. Do you know at any time what your unobligated funds are? Does your accounting system allow that?

Secretary HAMRE. Within a couple of billion dollars.

Mr. SISISKY. Is it \$50 billion, \$100 billion?

Secretary HAMRE. No. Unobligated, I don't know. It drops off as the year goes on.

Mr. SISISKY. I've been asking you this for 13 years.

Secretary HAMRE. You'll get an answer.

Mr. BATEMAN. We have a vote. It's the House amendment, and I think the thing for us to do is go vote and get back as quickly as we can.

Secretary HAMRE. I'll have that answer before you're back.

[Recess.]

Mr. BATEMAN. Thank you. We apologize for the interruption. My colleague, Mr. Sisisky, has a compelling engagement at 4 o'clock, and I want to give him some time to ask some questions about DBOF. If you have some further comments about the contingency fund.

Secretary HAMRE. No, sir. I think I've said as much, and I'll prepare the white paper you've asked for. I'd be delighted to do that. I have a bunch of things on financing and accounting I'd like to share, but I'd rather answer any questions of Mr. Sisisky.

Mr. BATEMAN. Let me ask you this. There is another item we discussed yesterday, and I don't know the budgetary processes as I

should, even after 13 years, but it occurs to me that we get supplemental appropriation requests from the Department of Defense later than we should, and the later they are, the more it aggravates whatever problems are being created.

Is it practical and helpful to the Department of Defense for us to try to work out some time lines and standards that require in one manner or form, earlier submission of Department of Defense supplementals free of any other—

Secretary HAMRE. Yes, sir.

Mr. BATEMAN [continuing]. Supplemental?

Secretary HAMRE. Sir, I have to say that it is not the Department's decision on when supplementals are submitted. The submission of supplementals is entirely the prerogative of the President through the Office of Management and Budget. It isn't our call. But if you were to outline things, of course, then that's your prerogative in working that out with them.

Mr. BATEMAN. Well, I am rather taken with the idea that we ought to get free from those constraints in terms of what it does to readiness and to the effectiveness of the congressional budgetary process, and your ability to manage the budget. If we ought to minimize that problem, we'll do as much as we possibly can. Mr. Sisisky?

Mr. SISISKY. John, I need to just idly say, how much funds do you have in unobligated funds?

Secretary HAMRE. I guess we didn't get the answer.

Mr. SISISKY. Do you think we'll ever get our accounting system straightened out? That's what causes the problems. All the Services have different systems.

Secretary HAMRE. They're all different.

Right now I think we operate about 150 accounting systems in DBOF alone. It's really amazing. And it would be easy to say, well, just throw them away, turn them off, and just pick up a new one. The problem with industrial activities is that most of these accounting systems were designed and integrated with the regular day-to-day management systems used for scheduling people, scheduling workload, and things of this nature.

So, saying that you're going to take the accounting system out and put a new one in is like saying I'm going to surgically remove just the lymphatic system out of the body and then put it back in and not touch the blood vessels. It's extremely hard to do. This is one of the problems I had with the previous testimony. We do have a plan on the accounting systems. Within DBOF our goal initially is to downsize. Right now with six shipyards in the Navy there are six separate accounting systems.

We want to get to one accounting system for the shipyards, so that every Navy shipyard is working off the same accounting system. That would be a big step forward. If we do that step, we will get down to only 17 accounting systems. Then from that stage, as we're developing the best of the accounting systems—and there are three fairly good ones that can be updated—we will then grow and modify them so that they can be expanded into other areas. But we're making better progress on the departmental accounting systems.

Mr. SISISKY. You're talking about the overall accounting?

Secretary HAMRE. I think we're doing a lot better on that. That's not to say we don't have our difficulties? Can I just take a second to put something into perspective? Yes, we have problems in finance accounting, and I've been on the forefront of advertising more than anybody, because you won't help me if I don't tell you the truth, so I'm going to tell you the truth.

But, let me tell you what we do. Every month we cut nearly 10 million payroll checks. Every month we process 250,000 changes in withholding. Every month we process 500,000 savings bonds. We garnish 6,000 employees' payroll a month for some reason or another, usually for child support or things of this nature. And we process 5,000 deaths in our retirement system a month.

This is all going on every day. In addition to that, we process a million vouchers a month for the commissary system. We process a million travel vouchers a month. It is just astounding. This is the largest and most complicated organization in the world, the Department of Defense, and we're providing accounting systems for this astoundingly complex and varied activity. And, frankly, we're doing a fairly good job with a very old system. Excuse me, with poor systems.

I'll tell you, very dedicated people are making these dumb old systems work. We have to give them better tools.

Mr. SISISKY. Those are computers—take the computers over the last 10 years. Of course, maybe now you can buy them off the shelf and be a lot better off. What do you want to tell me?

Secretary HAMRE. I want to tell you the current unobligated balances, \$139.553 billion. This is as of 2:30. I have no idea what it was.

Mr. SISISKY. I said \$50 to \$60 billion. Why I mention accounting systems—

Mr. BATEMAN. Can we declare a dividend?

Secretary HAMRE. No, sir.

Mr. SISISKY. I remember this accounting when I first came to Congress, and I've been appointed for 15 years. One thing I'm going to get straightened out before I finish up is the accounting system at the Department of Defense. We had three meetings with a group of about five, and that was the end of that. They retired.

Secretary HAMRE. Well—

Mr. SISISKY. But let me get back to this DBOF.

Secretary HAMRE. Yes, sir.

Mr. SISISKY. In testimony before you came here, they said it's a bad idea giving money—

Secretary HAMRE. Yes.

Mr. SISISKY [continuing]. To the services. Tell me why they say that.

Secretary HAMRE. Well, first of all, the only argument saying it's a bad idea is because we said it was a good idea 3 years ago, to take it away from them. Either we were wrong 3 years ago, or we're wrong now. I know that's the essence of the GAO argument. To be honest, we were wrong 3 years ago. And what we learned is that if you take cash responsibility away from the people who are doing the work, day in and day out, you've taken away one of the most important tools they could have for managing their business.

Mr. SISISKY. How much cash is required?

Secretary HAMRE. When we capitalized DBOF 4½ years ago, there was about \$6.5 billion in the cash corpus of the nine different trust funds. When we distributed it back to the Services, there was \$4.7 billion left. How much is needed? It seems to me that you're in the \$4 to \$5 billion range that you have to have.

Now, the services are very nervous at the outset because they don't trust our accounting systems much more than I do, even though they own a lot of them. And so they're building up a little cushion until they can get the management systems up and running for cash management. And that's why they've done advanced billing.

Previously, I think GAO said that only the Navy was doing advanced billing. We did this 2 years ago when, frankly, we said we were trying to sell DBOF 3 years ago, and we said we can just shake this tree and money will fall out of it. We offered it up in transfers \$2 billion.

Congress thought it was such a good idea that they transferred another \$3 billion. So, before the year was out, we transferred \$5 billion, almost the entire corpus. That's when we had to go into advanced billing, and we're now working our way out of that hole.

Mr. SISISKY. Where will the money come from to eliminate the advanced billing?

Secretary HAMRE. The money is actually going to come from reduced prices. For fiscal year 1996, prices are going down in DBOF, and I can lay that out for you. We're going to have \$1 billion in saving this year. DBOF is really working at the field level. We think it's actually going to save \$1 billion this year.

Mr. SISISKY. My time to go is running out. I just want to ask about FTE for the record. I talked this morning to my shipyard. They said they're working it out, but all the other depots and industrial facilities are having a very difficult time, and they had to do some things to work it out. When you told me what I have to do, to do it we can do it up here, this committee. What's the best way?

Secretary HAMRE. Well, Dr. Perry is of the view that reform does not produce reductions. Reductions produce reform. It's when you're confronted with a requirement to adjust to a much different way of doing business that you actually rethink the way you do business. This, I think, is the way big businesses have been managing the streamlining in America over the last 5 years.

So, he is of the view that we need to do the same thing. He has put down a very challenging marker to us, and that is to lower civilian employment in each of the Services by 4 percent a year. We have laid that in our budget, and we are assuming in our budget this 4 percent a year. The Navy is doing a pretty good job. We are less confident that we have as good a solution right now in the Army and Air Force, and we're going to be working on that this summer.

Mr. SISISKY. It seems to me that we ought to have enough employees to take care of the amount of work.

Secretary HAMRE. Well, yes, sir. You're addressing a very specific issue, and that is, are we artificially holding down work in depots because of the FTE.

Mr. SISISKY. No; you're not artificially holding down work. Here's where the problem comes in. The work you're holding down—and that seems to be rather silly, in some instances, because of the trades—it's 7 days a week, 12 hours a day.

Secretary HAMRE. Yes, sir.

Mr. SISISKY. Guess what's happening? Not only is the payroll going up, but the accident rates are going up and the productivity. You can't do that week after week after week without——

Secretary HAMRE. I knew we had a modest overtime problem at Albany with the Marine Corps, but I didn't know we had one with the Navy, and I'll track that down. That is new information.

Mr. SISISKY [continuing]. Working it out.

Secretary HAMRE. Well, I'll followup on it.

Mr. SISISKY. I don't want to do anything irresponsible.

Secretary HAMRE. Yes, sir.

Mr. SISISKY. Maybe I need to see Dr. Perry, but I just cannot believe that we should not have enough people to do the work. You know, even budgeting is just cut across the board.

Secretary HAMRE. Yes, I understand. You have to engineer the answer in an intelligent manner. I'll followup on that, and I'll also let the Secretary know of your concern.

Mr. SISISKY. I have one other question, Mr. Chairman, if I may. I'd like your personal views, not the Department's views, on the State Department's responsibility for reimbursement. As I understand it, the Navy is spending \$1 million a day in Guantanamo Bay. I don't think that's the responsibility of the Navy or the Department of Defense. If it's an immigration problem, it should be the responsibility of the Department of Justice or the Department of State. How in the world can we resolve these things? That's why I didn't ask you for——

Secretary HAMRE. You know, Congress has provided in statutory authority and responsibilities to various Departments. The statutory authority and responsibility for refugees rests with the Department of State. The statutory responsibility and authority for immigrants rests with the Department of Justice, which is with the NIS.

The difficulty is, that neither of them have the kind of resources the Department of Defense has. You know, lots of tents, personnel, field kitchens, and things of this nature, so they ask us to get involved and to do it. I, personally, believe they should be reimbursing us for that. In a way, I would like to see an arrangement set up that's similar to what we have with the Federal Emergency Management Agency.

If an earthquake were to occur this afternoon in California and FEMA were to say, we need you to deliver water purification units out there right away. At the same time they did that, they would give us a legal citation to their account in the Treasury, and we would simply bill it to that. I would love to see a similar arrangement on these other issues. That would be a way to fix this problem, but that is my personal view, sir.

Mr. BATEMAN. The problem is compounded with reference to the Cuba situation, by the fact that it is not an unforeseen contingency; it's an ongoing operation, and we don't know the end of it. To that

extent, it may be a contingency, but it's real, it's actual, and it's \$1 million a day.

There's nothing in the Department of Defense budget that covers any of that. And, yet, as we do our prioritization and allocation of whatever resources we have to deal with, we have to take it into account or, otherwise, we leave you out there with the same kind of mud and dirt and not being able to follow any statutory budgetary program. It's really a mess.

Mr. SISISKY. I want to thank the Comptroller and the Assistant Secretary of Defense.

Secretary HAMRE. Thank you for getting me in trouble this afternoon.

Mr. SISISKY. You'll never get in trouble.

Mr. BATEMAN. We do look forward to getting the white paper on this contingency signed—bearing in mind that we have the official recommended solution from the administration.

Secretary HAMRE. Well, it's a proposal, sir.

Mr. BATEMAN. We want to flush out that proposal and—

Secretary HAMRE. Yes.

Mr. BATEMAN [continuing]. Give us all the rationale that can be mustered on its behalf, but if you would, give us something that we can look at in terms of the written presentation. I don't mean a voluminous one, but a written presentation of the other options, other techniques, other methodologies.

Secretary HAMRE. I'll be happy to.

Mr. BATEMAN. Recognizing that we always have the dynamic protection on the separation of powers between the Congress and the Commander in Chief.

Secretary HAMRE. Yes, sir.

Mr. BATEMAN. I'm quite sure that we're going to have substantial questions that are going to come to us as we proceed in the next few weeks marking up the bill.

Secretary HAMRE. Sir, could I comment on two things that GAO brought up that I would like to—

Mr. BATEMAN. Sure.

Secretary HAMRE. It's a question that you asked, and it was on travel. I'd like you to know that we have underway a very substantial travel reengineering effort right now. Travel in the Federal Government is a mess. It is probably the most overly circumscribed and rulebound system that you could imagine.

The regulations that govern TDY travel are 230 pages long. If you were to go to Conrail you would see that their travel guidelines are written in English and take you 10 minutes to read it, because they're only 10 pages long. We have designed a system where we're counting on faceless clerks in some remote location to try to piece together countless pieces of paper.

We're choking on a system that is rulebound and antiquated. We're intent on changing that, and we are in the process now. We have redrafted the travel entitlement. The guideline was 10 pages, in clear text English so that anybody could understand it. And, we're going to use the private sector to the maximum extent. We're going to get out of the government-unique travel business. A full day is a day. A day is a day. None of this quarter day business, keeping track by the quarter day.

The customer, the traveler and his or her supervisor are honest individuals. We don't have to assume that they have to submit every little scrap of paper to document how they spent \$2.50 on a long-distance phone call back to their office. We're in the process of that, and we are under a very short timeframe. We've been given 90 days, and are about halfway through that process.

Currently, it's very hard to get an estimate of how much we spent. We know we spend at least \$500 million a year on travel. We think we spend at least 15 to 30 percent on travel costs. Right now the average in industry is 10 percent, and the best in industry is between 6 and 7 percent.

It is our view that we can save hundreds of millions of dollars by changing this. We're going to need help from you on two counts. I think we have a very modest change in statute, statutory provision. The biggest help we're going to need is to say that—we'll engineer a system that has internal controls, but don't hold us liable to—we're going to have a few individuals who are going to sleep in their car and then submit a hotel bill for the Hotel Pontiac. There are always a couple of low-lives, but we shouldn't design an entire system on that. And, unfortunately, we have several right now. We're going to need your help with that to encourage others to work with us.

On BRAC, one of the questions you raised is, why didn't we save as much on BRAC as we thought we were going to? I think there were three reasons. I'm talking about the first three rounds, and we think we've learned a bit from this in this last round.

First, is that the estimating methodology was based on historical data, and it turned out that we were wrong. We understated the costs, especially in the area of environmental cleanup. That's turning out to be a bigger bill than we thought it was going to be.

Second, we had some of the first round in BRAC where we were naive and we thought that we're sitting on valuable property. This stuff is a gold mine. We're finding that because of the environmental problems, it isn't necessarily a gold mine because the legal liability for cleanup still rests with us, and nobody else wants to buy that liability. They want us to clean it up first, so it really isn't valuable property. Yet, we put a lot of assumption in our budget early on that we were going to make money selling this property, and all of that hasn't turned out to be true.

We've also changed our philosophy. Our philosophy now is not, how do we get every penny's worth out of the residual value of that property? Our philosophy now is, how can we help the local community get that back on the tax rolls so that they're making money and not suffering the consequences of the closed base? That says you don't try to dig the local community to make them pay for the property that you are giving back.

What we're trying to do is actually help them turn that back to the private sector so that it's revenue generating and tax generating for the local base. So we've had a very important philosophy change.

Third, when a base gets on a base closure list we start sucking resources out of that base. We've even found instances where we thought we were going to have people on location who are going to help with a closedown of a base.

We have already pulled that away, and we now have to spend money to help shut down bases. That's a smaller factor, but I think it's a third factor. We think we've learned. We've tried very hard to get it right on the fourth round. We have also repriced the first two rounds.

Are there savings in BRAC? Yes, there are savings in BRAC. They're very important savings. This year is the first year that we are net positive on BRAC round one. We have about \$500 million this year that's auditable savings that came from the first round of BRAC, and that will grow to about \$800 million. We will be positive on a cash-flow basis in fiscal year 1996 on BRAC round two. I think we get positive with BRAC round three in 1997 or 1998—I forget the year—and we don't get positive on BRAC round four until the year 2000.

For fiscal year 1996 we are asking for nearly \$4 billion appropriated to help us close down. By the year 2001 we plan on having \$4,000 a year savings, annual savings. That's a swing of \$8 billion that we're counting on. We are counting on very large savings coming from BRAC.

Indeed the growth, the recapitalization that we're counting on for our modernization accounts—and, sir, you told me how serious a problem you think that is—we have 50 percent real growth in our budget over the 6-year period for modernization. And that depends almost entirely on the savings in BRAC. So, we do have to make BRAC work.

Mr. BATEMAN. Let me comment on the environmental cleanup problem. This subcommittee is going to be holding a joint hearing with the Military Installations and Facilities Subcommittee where we want to address the environmental issues.

One of the things that we recognize is that the Department of Defense has been made subject to various laws that mandate levels of cleanup and requirements, and whether you like them or not, you're as much subject to it as the private business firms that operate by district and regarding some of the excesses.

We want to hear from the Department of Defense about where you believe the legal requirements are and where they are burdening taxpayers and diverting defense resources in an unnecessary way. I hope that someone over there is certainly going to do an inventory of all the environmental laws that you have to deal with and identify those where the standard or criteria for the cleanup may be excessive or the time constraints in which you must perform and cleanup may be arbitrary.

We need to know these things, because we can at least hope that we could have some positive impact upon a more commonsense approach to resolving the problem than we had with the Department of Defense and especially the taxpayer.

Well, no one left but me, and I'm sure you and I have talked a great deal, and we do appreciate your coming and answering our questions yesterday, which I sure will be ongoing.

Secretary HAMRE. Thank you very much.

[Whereupon, at 4:02 p.m., the hearing recessed.]

[The following questions were submitted for the record:]

DEPARTMENT OF DEFENSE
RESPONSES TO QUESTIONS FOR THE RECORD

QUESTION 1. Please describe to the committee exactly what "tremendous progress" has been made to improve the operations of the Fund?

ANSWER: All policies have been developed which are critical to the operation of the Defense Business Operations Fund (DBOF), and the significant progress in this and other areas is documented for the Congress periodically. The latest report was submitted to the Congress on February 1, 1995. Many of the policies involve clarification and amplification of previous policies rather than fundamental changes. Although the GAO does not endorse all these policies, the policies developed have satisfied internal DoD problems, and a process has been established to continue to change DBOF policies as necessary. In most cases the Department does not agree with the GAO position that some of the new policies need to be revised. However, we will continue to work with the GAO on these issues.

Although the Fund's financial reports have recently been improved and efforts are underway to continue this progress, DBOF reports cannot be more accurate than the underlying accounting data. The crucial reports to DBOF management relate to cost. These reports were not changed significantly for DBOF except in supply management, and we expect the reports in this business area to be substantially improved during this fiscal year.

In most cases the information is now available for managers to control costs. Further improvements to the DBOF financial systems are dependent on the broader systems to improve the overall DoD logistics process. This is a major effort within DoD and is not driven only by the DBOF financial considerations. Improving the DBOF financial system is important but improving the logistics system is also important.

QUESTION 2. What tangible benefits have occurred since the Fund was established in 1991? Has the Fund reduced the cost of DoD's infrastructure? Could you please provide us specific examples of where this has occurred?

ANSWER: When the Fund was established in 1991, the existing Stock Funds and Industrial Funds of the Military Services, the Navy R&D activities and the Service Transportation commands were combined under the DBOF. When these functions were combined, they were placed on a full cost basis, and customer rates were established to fully recover the actual cost of

operations. Prior to DBOF, the expenses associated with many base support functions, military pay, depreciation, and other costs were either separately funded or not directly associated with the service provided by the business to the customer. The addition of these costs increased customer rates but also, for the first time, provided decision makers a more complete picture of the actual costs of the goods and services provided. The DBOF was designed to focus on cost control and to initiate sound business management practices. These fundamental goals have been achieved for each of the 27 business areas now included within the Fund.

By focusing on cost control, DoD managers have been able to eliminate excess staffing while more accurately estimating the cost of doing business. Two examples will demonstrate that savings and efficiencies have occurred since the inception of the Fund.

The consolidation of 44 information processing centers into 16 megacenters has translated into a reduction of over 1,800 positions and saved approximately \$100 million per year. Moreover, the comparison of workload and costs at each of the 16 megacenters has caused each of the managers at the megacenters to reduce their costs even further to not lose workload, and to compete more effectively with the other megacenters and hence retain jobs at their location. This type of incentive will result in additional reductions to the cost of the DoD infrastructure.

Currently, the Defense Printing Service (DPS) sends all printing which is neither classified nor urgent to GPO for execution. As part of its own downsizing of DPS infrastructure, DPS plans to increase the amount of printing, which is neither classified nor urgent, sent to GPO for execution. The FY 1996/1997 President's Budget reflects this increase in contracted printing, and the savings associated with increased contractor support use have been passed on to the customer through lower prices. In addition, the DoD is currently reviewing printing functions that were retained by the Services and that were not merged into DPS. Anticipated annual savings of \$4.2 million that would accrue when these printing functions are merged into DPS are reflected in the FY 1996/1997 budget beginning in FY 1997. DPS, since its inception in FY 1992, has significantly reduced infrastructure. DPS has eliminated 1,400 positions, closed 79 facilities, vacated 350,000 square feet of space, eliminated 2,200 pieces of production equipment, and increased use of private sector printing via GPO by 15

percent. By the end of FY 1995, DPS plans to reduce staffing by an additional 500 civilian positions, close an additional 44 facilities, and increase contracted printing to 70 percent of work load. FY 1994 contracted printing represented 54 percent of work load.

QUESTION 3. What would be the impact upon Defense's operations if the Congress terminated the Defense Business Operations Fund?

ANSWER: The establishment of the Fund does not change previous organizational reporting structures or command authority relationships that have existed for decades in DoD's revolving funds. The functional and cost management responsibilities remain with the Military Departments and Defense Agencies. Prices for goods and services produced in a Component business area remain the responsibility of that Component and are set on a break-even basis over the long term. The DBOF approach enables the Department to stretch its resources a little farther than might otherwise be possible, thereby freeing scarce resources for other readiness requirements. The total cost visibility to the DBOF resource manager enables management action to be taken to control costs of operations. Similarly, accurate understanding by the customer of the true cost of the goods and services ordered promotes better resource allocation. The GAO concluded that the underlying DBOF principles are sound and, when fully implemented, should contribute to improved management within DoD.

Therefore, the impact of termination would be substantial. It would basically refute the concept that the availability of better cost knowledge leads to better decisions. Also, depending on the termination mechanism, substantial additional resources would be required in the appropriations' process.

QUESTION 4. In fiscal year 1992, Defense established the \$77 billion Defense Business Operations Fund. The Fund consolidated the existing nine stock and industrial funds plus five other small activities. The Fund is now over 3 years old. Why has DoD continued to have difficulty in improving the systems and financial reports?

ANSWER: DoD must continue to rely on the existing accounting and financial systems until new or modified systems can be deployed. This is not an easy or short term process. DBOF will be a beneficiary of these new

systems as they are deployed.

QUESTION 5. Why did Defense decide to put the cash management responsibilities back at the component level? Will this action increase the Fund's cash requirement? If so, by how much? By placing the management of the Fund's cash and the related Antideficiency Act limitations at the military service and Defense component level, doesn't this in essence do away with the Defense Business Operations Fund as well as some of the benefits of the Fund?

ANSWER: The primary financial management focus in the DBOF has been, and continues to be, cost control. Based on experience gained during the first three years of DBOF operation, the Department has determined that cash management responsibility must accompany cost management responsibility to maximize effectiveness. Unless the Military Components have concurrent responsibility for both cash management and cost management, unlimited and unplanned cost growth can occur in a business area. Therefore, the Department returned cash management responsibilities to the Military Components, effective February 1, 1995, to improve operation of the Fund and to increase the focus on cost control.

When the Department centralized DBOF cash management, it believed that it was more important to require financial managers to understand and manage their costs than to manage cash flow. The Department's objective, then as now, was to promote cost awareness. After managing cash for several years at the USD (Comptroller) level, it was determined that the USD (Comptroller) staff had only remedial, after-the-fact, capability to adjust cash levels. In addition, the USD (Comptroller) had limited preventive capability to preclude cash going below minimum levels because the operational control of actions that are taken by each DBOF activity and result in cash disbursements and collections always have resided, and continue to reside, with the Military Components.

Returning cash management responsibility to the Military Components was implemented by dividing a single Treasury account into five subaccounts. It is too soon to determine if additional cash will be required by the Military Components. However, some Military Components have initiated advance billing procedures to provide increased levels of cash until they gain additional experience. The FY 1996 budget anticipates terminating advance billing by the end of FY 1996.

QUESTION 6. In June 1993, the Fund began advance billing some of its customers to avoid a cash shortage. How much has DoD advance billed its customers as of February 1995? In June 1994, DoD planned to eliminate the advance billing of customers in January 1995. However, the Fund is still advance billing customers. Why? Which services are now advance billing their customers? How does DoD plan to eliminate the advance billing of customers? Where will the money come from to eliminate the advance billing of customers?

ANSWER: In June of 1993, DoD initiated advance billing in order to accommodate the \$5.7 billion cash transfer Congress directed DoD move from DBOF to the Military Service's Operation and Maintenance accounts. Near the end of FY 1994, advance billing was ended in most of the Depot Maintenance business areas and the reversal of prior advance billing initiated. At the end of January 1995, the outstanding advanced billings totaled \$3.87 billion.

Returning cash management responsibility to the Military Components was implemented by dividing a single Treasury account into five subaccounts. It is too soon to determine if additional cash will be required by the Military Components in the long run. However, the Army, Navy, and Air Force have initiated one-time advance billing procedures to provide increased levels of cash until they gain additional experience. It is estimated that these new advances will exceed \$1 billion. The FY 1996 budget anticipates terminating advance billing by the end of FY 1996.

The funding for the elimination of advance billing will be derived from customer rates and through the generation of additional cash, primarily in the supply business areas.

QUESTION 7. Our review of the DBOF budget shows that DoD plans to transfer via a passthrough about \$695 million from the customer accounts to DBOF in fiscal year 1996. Why is DoD planning to use passthroughs? Isn't the use of passthroughs getting away from the total cost concept of DBOF? What is DoD's justification for including the passthrough of money in the customer accounts? If DBOF needs this money, shouldn't DoD request this money by asking for a direct appropriation to DBOF?

ANSWER: A major factor in the large rate increases in FY 1995 were unavoidable losses due to force structure reductions. This factor was noted by the House

Appropriations Committee Report, which also directed a review of the DBOF rate structure. This finding resulted in an analysis of whether a onetime, direct appropriation should be requested in order to reduce the large rate swings experienced in recent years. However, with the exception of the Navy, which will need a onetime pass through appropriation, the analysis found that these large increases are now moderating and rates are actually leveling out or declining. Further, it is anticipated that rates will become increasingly stable now that the majority of force structure declines have been implemented and are now coming to a close. In the case of the Navy, a onetime pass through is proposed in the budget for FY 1996 to offset losses that otherwise would have been recouped through increased rates.

QUESTION 8. Since the establishment of DBOF in fiscal year 1991, DBOF has continued to lose money. DBOF has lost about \$1.5 billion since fiscal year 1992. If DBOF is supposed to operate on a break even basis, why is DBOF always losing money?

ANSWER: The loss of \$1.5 billion in DBOF amount to less than 0.6% of the financial transactions that took place from FY 1992 to FY 1994. However, any losses in the DBOF are viewed as not acceptable, but they must be considered in the fiscal environment in which the losses occurred within the Department. In some cases, the total cost philosophy of the DBOF has highlighted business areas that operate at a loss for two reasons: First, the loss of workload as the customer accounts are reduced due to the overall Force reductions in Defense; second, the difficulty in reducing the in-house labor force once the loss of workload has manifested itself. Typically, there is a 18 to 24 month lag between the loss of work and the reduction of in-house labor. Reduction-in-force and early-cut actions take time to implement and carry out in a manner that is consistent with personnel policies and public statute. As the workload stabilizes and the turbulence associated with dramatic decreases in force levels passes, losses and gains in the DBOF will break even over time.

QUESTION 9. Our review of the budget shows that about half of the prices that the Fund charges customers will decrease in fiscal year 1996. What impact do you think this will have on readiness? On the other hand, almost all the prices (20 of the 24 business areas) will increase from fiscal year 1996 to 1997. Wouldn't the increase in prices have an adverse impact on readiness?

ANSWER: No impact on readiness will occur in either case because the customer accounts are adjusted to reflect the changes in the rates as part of budget formulation. Hence, readiness remains fully funded and the supporting infrastructure is fully funded for the levels of readiness achievable based on the total DoD top line.

QUESTION 10. Although the Fund has been in existence for over 3 years, DoD has made little progress in improving its systems. Why is it taking DoD so long to improve its systems?

ANSWER: The original strategy was to put all DBOF accounting on one system. Due to major differences among various DBOF business areas and the length of time required to develop a single system, this strategy was modified. An extended period of time was required to overcome the resulting problems and to build a consensus among the Military Services for a viable strategy to evaluate, select, approve, and improve DBOF accounting systems. Another year has been required to conduct detailed evaluations of the existing systems and recommend a system for each of the DBOF business areas within each Military Service. This has resulted in a decrease in systems from over 80 to 17. At this time, cost and economic analyses are being performed on most of the recommended systems.

QUESTION 10 (Continued). What are DoD's plans for developing and implementing good cost accounting systems for DBOF?

ANSWER: DoD conducted detailed evaluations of over 80 of its best DBOF accounting systems and recommended 17 interim migratory systems for use in DBOF business areas. Two of those systems have been approved as interim migratory systems, and significant improvement efforts are underway for those systems. In two business areas, DoD is preparing to procure GSA certified compliant commercial off the shelf software to replace outdated and deficient systems. These contracts are planned for award this year. For the remaining 13 systems recommended as interim migratory systems, cost and economic analyses are underway to determine optimum strategies to improve and to migrate existing accounting workload to them. These cost and economic analyses are expected to take up to 10 months to complete. After approval of the selected systems, plans will be developed to improve the systems and migrate respective workload from current systems to the improved selected interim migratory systems.

QUESTION 10 (Continued). How long will it take to implement these systems and how much will it cost?

ANSWER: This information is being developed as part of the cost and economic analyses.

QUESTION 10 (Continued). How many systems is DoD planning to select to account for DBOF resources?

ANSWER: DoD has selected, or is planning to select, seventeen accounting systems to account for DBOF resources.

QUESTION 10 (Continued). Will DoD terminate the existing systems that are not selected to account for the Fund resources?

ANSWER: Yes. For each DBOF business area within a Military Service, an implementation plan will be developed to migrate business area accounting support to an interim migratory system. Implementation plans are dependent on alternative strategies developed through cost and economic analyses currently underway.

QUESTION 11. What efforts do you have underway that cut across all of DoD, particularly as it pertains to reengineering your key processes? If so, which processes are you tackling first and what has been the progress? If not, why not?

ANSWER: The principal thrust of DBOF improvement has been in the financial identification of total costs and comprehensive pricing to create an economic incentive to reduce costs. Reengineering processes within the DBOF has occurred in the consolidation of consumable items within DLA, accounting functions within DFAS, and printing within the Printing Service. In addition, depot level repairables have been moved from "free issue" and appropriated funding into the DBOF customer/provider network. Other business areas are mainly dependent upon more standard systems that are being developed to change the basic logistic processes within DoD.

QUESTION 12. What do you consider your top initiatives to begin to correct your financial management of DBOF weaknesses?

ANSWER: In the DBOF and other areas, the Department has embarked on a long-term, comprehensive effort to standardize and modernize our accounting and financial systems. DoD currently operates hundreds of separate accounting and financial systems. Within DBOF numerous separate accounting systems are now operating

even among the business areas of each individual Service. Often, the accounting system and procedures change even between activities within the same business area, such as shipyard to shipyard. We are moving to correct this by establishing standardized systems and interfaces both in the logistics management and financial management areas. Additionally, we have revised and standardized our accounting and budget policies within DBOF, and initiated new execution reports and procedures to improve the timeliness and accuracy of financial data. As noted previously, the number of accounting systems have already been reduced from over 80 to 17.

QUESTION: Ms. Heivilin expressed concern over the plan to consolidate finance and accounting activities into five large centers and 20 smaller centers. She stated that she believed that five large centers and six smaller centers was more appropriate, in fact would save \$3 billion over the next twenty years.

ANSWER: A primary consideration in developing the DFAS consolidation plan was the imperative to move work as quickly as possible from Defense Accounting Offices since the announcement of any realignment would have an immediate impact on mission accomplishment as a result of attrition. At the same time, the strategy recognizes that the relocation to new sites must be accomplished deliberately to ensure mission effectiveness. Transition planning considered both issues. The plan migrates workload at a rapid but manageable pace to new sites to minimize mission failure in the field.

In addition, by consolidating into 5 large centers and 20 smaller DFAS operating locations (vice 5 large centers and 6 smaller operation locations), DFAS will be able to achieve savings more rapidly since only a limited amount of work can be transferred safely to one receiving site at a time as discussed above. Thus with more consolidation sites receiving work, the consolidation can be completed more rapidly and the savings achieved more rapidly as well.

Also, additional sites provide more flexibility for future expansion should that prove necessary or desirable. For example, in the future, it may be feasible and desirable to consolidate European or certain aspects of tractical finance and accounting to DFAS sites in the Continental United States, and the larger number of operating locations provides the necessary expansion capability. Similarly, the larger number of operating locations provides the rapid expansion capability needed in the event of hostilities and full mobilization.

QUESTION: What steps are you taking to prepare for supporting a smaller defense infrastructure, knowing that economies of scale may be difficult to achieve?

ANSWER: The Department has made substantial progress towards attaining the appropriate balance between providing the proper level of services and support for the military forces while reducing unneeded overhead activities.

- Manpower reductions: By the end of FY 1995, the military drawdown goal will be 95 percent complete. By the end of FY 1995, the civilian drawdown goal will be 84 percent complete.
- Force structure reductions: By 1996, DoD will have reached projected force structure goals in Army active land forces, Marine Corps active and reserve land forces, Navy active and reserve carrier wings, and Air Force active and reserve fighter wings.
- Base Closure and Realignment (BRAC): The 1988, 1991, 1993 BRACs have recommended 70 major base closures plus numerous smaller closures and realignments. As a result, domestic base structure will have been reduced by 15% (plant replacement value).

The BRAC guiding principles are: (1) Improve military effectiveness; (2) save money by reducing overhead; and (3) conduct a fair and objective selection process.

- Material management and distribution: The goal is to maintain or improve levels of support to military customers, while drastically reducing structure and overhead associated with delivering that support. The BRAC efforts have provided an effective process to reduce the excess distribution system capacity. Distribution depots will be sized to meet storage and throughput requirements associated with DoD-wide inventory levels, which will continue to decline. The Department has been pursuing aggressive inventory reduction program since 1990 and has already reduced inventories from \$98.9 billion to \$77.5 billion through FY 1993 in FY 1993 constant dollars. These efforts will continue.

Questions from March 23, 1995 HNSC Hearing on
Department of Defense Support Infrastructure

Question 15: What steps, immediate and long term, will you take to reduce the risk of investing billions in information technology, particularly in modernization systems?

Answer 15: The Department is taking a number of steps to reduce the risks of investments in information technology (IT). These steps are aimed at reducing both technical and managerial risks. For example, we are:

- Taking advantage of tried and true commercial best practices that can provide better ways doing business within the Department. Identifying such practices is a cornerstone of the work being done under our Software Management Initiative.
- Encouraging the use of proven commercial off-the-shelf (COTS) products where practicable and economical. Even in those cases where new development is necessary, there may be opportunities to complement these requirements with COTS products.
- Emphasizing incremental and evolutionary strategies for large, complex IT projects rather than undertaking a "grand design" approach which frequently has grander risks.
- Using standards to minimize risk, reduce costs, and increase interoperability.
- Revising the Program Objective Memorandum and IT budget exhibits to gain greater visibility of IT spending, and position the Department to better articulate returns on IT investments along functional area lines.
- Continuing to use management oversight groups such as the Enterprise Integration Corporate Management Management Council and the Major Automated Information Systems Review Council. Each, in and of itself, provide assurance of effective management controls. Working together they provide added assurance that IT investments are appropriately aligned with the functions that IT supports.

Specifically, for the Department's finance and accounting systems, the Defense Finance and Accounting Service (DFAS) is pursuing an interim migration strategy for accounting systems to collapse systems

along Military Component and business area lines. This near term strategy provides the capability to quickly reduce the number and cost of systems supporting accounting operations without disrupting customer business practices. At the same time, we are pursuing a long term strategy that standardizes processes and data elements to be incorporated into target migratory systems. This strategy will further reduce the number of systems supporting finance and accounting operations, integrate functions, and maximize use of enabling technologies such as electronic data interchange and imaging. This controlled, iterative approach to standardizing systems provides the capability to immediately achieve results and the flexibility to respond quickly to a changing environment.

The Department is currently conducting a most comprehensive reform of financial management (FM) systems and practices in its history. We have developed an in-depth understanding of the underlying causes of the problems and the related system operating environments. The Department has developed a blueprint for long range reform and has embarked on a path to reduce risk associated with modernization by (1) reengineering its business practices to eliminate these long standing problems, (2) consolidated finance and accounting systems and operations, (3) strengthen internal financial management controls through both reengineering practices and system changes, (4) improved visibility for managers of the cost associated with business practices and modernization, and (5) the development of standard data elements and associated oversight councils and boards to optimize system compatibility.

Question 16: How do you integrate the various management initiatives ongoing in DoD, especially those under CIM and the Defense Performance Review, which seem to be closely tied?

Answer 16: Our goal is to achieve improvements and efficiencies wherever we can find them; they are being identified under all of the ongoing initiatives such as CIM and the Defense Performance Review (DPR). To the greatest extent possible, we are coordinating the efforts among these initiatives as needed. For example, the staffs of CIM and DPR are working closely together to achieve the Department's goals regarding cycle time reductions and business process reengineering--both of which are intricately entwined and aimed at improving the way the Department does business. Further, the Department has established an Enterprise Integration Corporate Management Council as

a forum to exchange information management concepts and plans as well as interchange views at the executive level of information management policies. Underneath this council is the Corporate Functional Integration Board which address cross-functional issues and develops solutions to resolve problem areas.

Question 17: How much is required for systems modernization and what are you getting for that investment?

Answer 17: In the FY 1996/1997 Biennial Budget, the DoD anticipates spending \$2,662 million for modernization or development of information technology in FY 1996. This estimate is based on a very broad definition of modernization and development. It encompasses not only program costs for systems that are planned or under development, but any change or modification to an existing system which results in improved capability or performance. For example, procurement of the newest release of an office automation application would be reported as a modernization cost under this definition.

As to the return on this investment in modernization or development, the Department has stressed the importance of controlling expenditures on IT initiatives to ensure derived benefits satisfy mission needs to the greatest extent possible, and in the most cost-effective manner. Information technology decision makers at all levels are required to employ return on investments as one of the factors in their investment decisions, and document its use in support of these decisions.

Significant paybacks have resulted to the Department across multiple functional areas from investments within the information management arena. For example, the DoD data center consolidation initiative is projected to yield net savings of \$473.8 million and result in the elimination of 2,399 positions. Resulting savings have been extracted from the budget.

In a number of cases, dollar savings are not apparent in an investment decision, but implementation of the information technology initiative provides benefits to the Department's mission performance such as readiness, support to the warfighter, increased productivity in air and ground operational activities during peace and wartime, and an increased timeliness and accuracy of data for decision makers.

To foster the continuance of efforts to ensure tangible benefits are considered in the decision making processes, DoD and Service oversight activities will continue to assess Return on Investment as part of their regular review of proposed information technology investment.

For financial and accounting systems, DFAS is expending approximately \$610M in software development and modernization during FY 1995-1997. This includes funding to sustain current operations (i.e., changes necessary to support regulatory, statutory and policy updates), compliance with the Federal Managers Financial Integrity Act, migration strategies to support consolidation and standardization of systems, and enhancements to support customer requirements.

Between FY 1995 and FY 2001, DFAS will decrease operating costs 22 percent. This savings will be accomplished through further consolidation of finance and accounting functions, based on business process improvements, systems enhancements and infusion of enabling technology. These are complementary and dependent initiatives. Investment in finance migratory systems has already achieved significant savings. For example, in FY 1994, we eliminated 314 positions through the implementation of the Defense Civilian Pay System (DCPS). By using DCPS, 1,600 accounts can be processed per employee instead of 300 to 500 accounts. Similar achievements occurred through implementation of finance migratory systems for debt management and retiree and annuitant pay and through the use of electronic fund transfer.

DFAS is aggressively standardizing and consolidating finance and accounting operations. Over 300 Defense Accounting Offices will consolidate to approximately 20 sites over the next few years. At the same time, we are pursuing a strategy to rapidly collapse the number of accounting systems that operate at consolidated sites. Over 60 percent of our accounting systems will be eliminated or consolidated within the next 3 to 5 years. As we standardize these systems, over 30 percent of our modernization funding is targeted to correct deficiencies in key accounting requirements in order to comply with the Chief Financial Officer's Act.

QUESTION 18. GAO's preliminary review of the DBOF budget shows that many of the depot maintenance areas have over a 5-month carryover of work from fiscal year 1996 and 1997. For example, almost half the orders the Air Force depot maintenance area receives in fiscal year 1996 will not be performed until fiscal year 1997. Why is the amount of funded carryover so high? What is DoD doing to reduce this funded carryover? Why should the Congress continue to finance work in one fiscal year that DoD will not perform until the next fiscal year?

ANSWER: Annually, Depot Maintenance activities review unfilled customer orders remaining at the end of the year. Economy Act orders that can not be completed are returned, and project orders that can not be started or completed within three months following the end of the fiscal year are assessed to determine if they are still valid requirements. There are several important factors that are considered in the revalidation process, as well as any special or unique circumstances that may have an impact.

DoD Depot Maintenance activities are year around industrial operations that require approximately three months of backlogged orders for prudent and efficient management, and to avoid costly disruptions that occur when the production lines stand down. Also, many orders are held in suspense awaiting special parts that have long procurement times or for the induction of the weapon system platform (aircraft, ship, tank, etc.) so that work can begin. Other factors that are considered include the projected capacity of the production plant, customer required schedule changes, and overall financial management considerations. However, when funded backlog levels become excessive the Military Services and DoD initiate actions to reduce funded carryover.

The level of funded backlogs have been impacted by several factors in recent years. First, in FY 1992 and FY 1993, work load levels surged in the aftermath of operation Desert Storm as large numbers of weapons, vehicles, aircraft and other items required maintenance after use in the war zone. This surge was programmed to be spread over several years in order to avoid the need for inefficient levels of over time or for hiring large numbers of extra personnel who would then have to be layed off as soon as the surge passed. Second, in FY 1992 through FY 1995 the Congress increased total depot maintenance funding over what was requested by the Department, and specifically directed the DoD to allow unusually high levels of funded carryover for several years. Finally, DoD has recognized the need to downsize the logistics support infrastructure commensurate with the reductions in the size of the armed forces. The base closure actions and the DoD-wide reductions in total civilian work years have combined to constrain the overall capacity of the Service depots by requiring hiring freezes and reductions-in-force, work load transfers and realignments, and depot closures. Further, Title 10 U.S.C contains restrictions on the total amount of depot maintenance work load that may be contracted out.

QUESTION 19. Our review of the DBOF budgets show that DoD is reducing the number of people working in the depot maintenance area by thousands of people. On the other hand, the amount of funded orders received by the depots continues to remain high. How does Defense plan to perform this work when they are continually reducing the number of people working in the depot maintenance area?

ANSWER: As discussed in our answer to question 18, the current work load surge has been programmed to be spread over several years in order to avoid the need for inefficient levels of over time or for hiring large numbers of extra personnel who would then have to be layed off as soon as the surge passes. Additionally, Congress has imposed civilian work year limitations on DoD by the Federal Workforce Restructuring Act of FY 1994. These constraints have contributed to larger levels of funded carryover for several years.

However, long range work load projections reflect reductions commensurate with the down sizing of the uniformed forces supported by Depot Maintenance. Additionally, we have requested Congress provide legislative relief from the contracting out constraints now included in Title 10, U.S.C., so that temporary work load increases could be performed in the private sector.

QUESTION 20. GAO's analysis of the DBOF budgets show that the Navy DBOF activities have received significant amounts of base closure and realignment funds. Why is the Navy DBOF activities receiving so much money on base closures - - about \$1.4 billion over the 4 year period? What is the Navy spending this money on?

ANSWER: Consistent with the need to reduce the infrastructure and commensurate with force reductions, the Navy is implementing the recommendations of the 1991 and 1993 Base Realignment and Closure (BRAC) Commissions. The recommendations, as approved by the Congress, must be carried out within five years of the Congressional approval. The magnitude of the realignments and closings, at depots, shipyards and research and development centers, warrants large, up front investments that will yield savings to the Department in the years to come. The Navy is spending money on environmental restoration and shut-down costs at the bases slated to be closed. At bases where functions are being realigned, the Navy is spending money on new construction, moving people and equipment, facility renovations and severance costs. Public statute requires that BRAC requirements be funded from BRAC appropriations.

DEPARTMENT OF DEFENSE ENVIRONMENTAL ISSUES

HOUSE OF REPRESENTATIVES,
COMMITTEE ON NATIONAL SECURITY,
MILITARY READINESS SUBCOMMITTEE, AND THE MILITARY
INSTALLATIONS AND FACILITIES SUBCOMMITTEE,
Washington, DC, Friday, March 24, 1995.

The subcommittees met, pursuant to call, at 10 a.m., in room 2118, Rayburn House Office Building, Hon. Herbert H. Bateman (chairman of the Military Readiness Subcommittee) presiding.

STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, MILITARY READINESS SUBCOMMITTEE

Mr. BATEMAN. The subcommittees will please come to order.

Today the Military Readiness Subcommittee and the Military Installations and Facilities Subcommittee are meeting jointly to review environmental programs of the Department of Defense.

The reason this is a joint subcommittee hearing is that environmental issues are under each subcommittee's purview. Generally, the Subcommittee on Military Installations and Facilities is concerned with the defense environmental restoration account and cleanup actions required by the Base Realignment and Closure Commission, and the Subcommittee on Military Readiness is concerned with environmental compliance requirements of the Department of Defense. We are all concerned, however, at the enormous cost of these environmental programs and the impact of the cost on the O&M budget that many of us believe is significantly inadequate. Many of us share a growing concern that we do not have much to show for the billions of dollars already spent on these programs.

There is no question in my mind that we must continue to be committed to environmental programs that protect the safety and welfare of our service members and their families and that of the general public. At the same time, we must also seek changes that will ensure that needed protection is accomplished in ways that meet the commonsense test while appropriately avoiding delaying or reducing expenditures that do not. It may also be prudent to devote more resources to developing new technologies that will provide the same level of protection at a much lower cost.

A great deal of the environmental dollars we currently spend are for environmental actions required by statute. It goes without saying that the Department of Defense must obey the law, but it is just as true that unrealistic legal measurements which are not cost

effective or offend common sense should be changed. We need to be sure that the process does not drive the remedy.

At this time I will yield to the cochairman of today's hearing, the Honorable Joel Hefley, chairman of the Military Installations and Facilities Subcommittee.

Mr. Hefley.

STATEMENT OF HON. JOEL HEFLEY, A REPRESENTATIVE FROM COLORADO, CHAIRMAN, MILITARY INSTALLATIONS AND FACILITIES SUBCOMMITTEE

Mr. HEFLEY. Thank you, Mr. Bateman.

As has been indicated here today, the Subcommittee on Military Installations and Facilities with the Subcommittee on Military Readiness are meeting jointly to consider the DOD environmental requirements and the programs designed to support them. As the gentleman from Virginia indicated in his opening remarks, we are meeting jointly because these two subcommittees share jurisdiction over the broad array of policy and budget questions that affect the implementation of DOD's environmental programs.

In fiscal year 1995, just over \$6.2 billion was appropriated for all discretionary and mandated environmental functions of the Department of Defense. Of that total, \$4.28 billion was appropriated for the defense environmental restoration account remediation and restoration required by base closure actions and other environmental compliance requirements. The administration's budget request for fiscal 1996 is roughly the same.

We have heard from the administration on previous occasions, and I expect we will hear today that every dime contained in the budget request is necessary and that any reduction in funding for the various environmental programs of the Department will have dire consequences. Perhaps that is the case. However, we do not have a clear sense that the funding appropriated in previous years has yielded the expected results, and it is unclear that the Department has a complete understanding of what ultimately will be required in the area of cleanup.

For example, DOD has grossly underestimated the cost of environmental cleanup on installations closing under BRAC. Last year, the Congressional Budget Office estimated that the average cost to clean up a closing military base is running 60 percent over the original estimates.

While we do not appear to have a clear understanding about the ultimate cost of environmental cleanup at DOD sites, it is also not clear that the Department is getting the best value for the increasingly limited resources which are available. Each of the services appear to have approached, for example, the question of contracting out cleanup differently.

In my view, we need to explore what works best and get the best value possible for the taxpayer. More fundamentally, we need to reassess the standards and criteria imposed by the current environmental statutory and regulatory framework. This applies not only to the Department of Defense, but to the effects of current law on the private sector as well. We have enough experience and data at this point to begin to ask basic questions about the effectiveness of

current law and whether the present legal environment is actually impeding progress in cleaning up contaminated sites.

It is my hope that this committee, as well as others in the House with jurisdiction and expertise in these matters, can come together and provide whatever reform is necessary to streamline the clean-up process and, in the case of Federal facilities, get the best value in remediation for the taxpayer's dollar.

Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, my good friend from Colorado.

Now the Chair recognizes the gentleman from Virginia, Mr. Sisisky, who is the ranking member of the Military Readiness Subcommittee.

STATEMENT OF HON. NORMAN SISISKY, A REPRESENTATIVE FROM VIRGINIA, RANKING MINORITY MEMBER, MILITARY READINESS SUBCOMMITTEE

Mr. SISISKY. Thank you, Mr. Chairman. I will be short.

I join with the chairmen of the subcommittees in welcoming our witnesses to this joint hearing today. The magnitude of the effort to identify and clean up the existing hazardous waste sites is a monumental challenge. A part of that challenge lies in determining how much is to be done, to what standard, over what timeframe and, of course, at what cost. The prepared statements that have been submitted for the record indicate that the Department has been busy in this area and a lot has been done. Those statements also remind us that much remains to be done. Your testimony today will assist us in understanding more about how we should proceed in this endeavor.

Again, I welcome you to this hearing and look forward to your testimony and your responses to our questions.

Mr. BATEMAN. Thank you, Mr. Sisisky, and now I will recognize the gentleman from Texas, Mr. Ortiz, who is the ranking member of the Military Installations and Facilities Subcommittee.

STATEMENT OF HON. SOLOMON P. ORTIZ, A REPRESENTATIVE FROM TEXAS, RANKING MINORITY MEMBER, MILITARY INSTALLATIONS AND FACILITIES SUBCOMMITTEE

Mr. ORTIZ. Thank you, Mr. Chairman. I am very pleased to join in welcoming our witnesses to the hearing this morning.

Our committee is deeply committed to a ready and capable force. The environment and their missions are closely linked. It is imperative that we provide a safe environment for the men and women serving in the military and for their dependents living in our facilities.

Effective environmental action will garner public support for our mission and for our installations. Compliance with Federal, State, and local laws means continued utilization of facilities and avoidance of lawsuits, expensive fines, and interruption or delay of mission activity. Cleaning up hazardous material is absolutely necessary to ensure a safe facility. And in the case of BRAC, it will ensure rapid availability of transferred land for community reuse and development.

Since 1984, we have expended \$11 billion to clean up contamination. Current estimates are that we will expend at least \$30 billion

more. In this environment of budget restraints, we must exercise a strategy and technology to reduce cleanup costs. I am pleased that Secretary Goodman understands this issue, and I look forward not only to her testimony regarding the current state of the environmental programs but also to learn how she plans to deal with cost and time problems.

I am pleased that CBO and GAO are here with us today, and I am sure they can offer worthy suggestions for cost control.

I brought with me a letter from California Governor, Pete Wilson, regarding his concerns with cuts in funding for the environmental restoration of military bases. I ask that this letter be inserted in the record of this hearing.

Again, Mr. Chairman, thank you very much.

Mr. BATEMAN. Without objection, the letter will be admitted, and I thank you, Mr. Ortiz.

[The following information was received for the record:]

GOV. PETE WILSON,
Sacramento, CA, January 25, 1995.

Hon. WILLIAM PERRY,
Secretary of Defense,
The Pentagon, Washington, DC.

DEAR SECRETARY PERRY: I would like to express my deep concern about recent actions at the Department of Defense (DOD) and in Congress regarding cuts in funding for environmental restoration of military bases.

The recent decision by Congress to cut \$400 million from the Defense Environmental Restoration Account (DERA) for fiscal year 1995 continues a disturbing trend begun last year when Congress rescinded \$507 million from the Base Realignment and Closure (BRAC) Account. California was reassured that the BRAC recession would not affect environmental work at closing military bases, but work was indeed scaled back at several California military bases due to the cut. The DERA cut presumably means that DOD will seek to postpone or eliminate environmental work at operational military bases.

At the same time, the DOD Comptroller has announced an additional \$437 million in cuts for cleanup programs through fiscal year 1997. Such actions can only encourage members of Congress who would like to redirect DOD environmental spending into more traditional defense programs.

The continued erosion of cleanup funding inevitably will threaten the health of armed services personnel and civilians who work at military bases where contamination is present. It will also exacerbate economic suffering in communities that are struggling to redevelop closing bases. And, if the federal government will not meet its cleanup obligation, how can we expect private industry to do so?

California expects DOD to comply with the federal/state cleanup agreements it has signed at California military bases. DOD is contractually obligated to seek sufficient funding to permit environmental work to proceed according to the schedules contain in those agreements. California will not hesitate to assert its right under those agreements to seek fines, penalties and judicial orders compelling DOD to conduct required environmental work.

I would be happy to work with you to strengthen support in Washington for full funding of DOD cleanup work. One way to reduce oversight costs would be to delist military bases from the National Priorities List and give states the exclusive responsibility for overseeing base cleanups. Please do not hesitate to contact me if I can be of assistance in these areas.

Sincerely,

PETE WILSON.

Mr. BATEMAN. We have two panels of witnesses today. The first panel consists of Ms. Sherri W. Goodman, Deputy Undersecretary of Defense for Environmental Security at the Department of Defense; Mr. Lewis D. Walker, Deputy Assistant Secretary of the Army for environmental safety and occupational health; Ms. Cheryl Kandaras, Principal Deputy Assistant Secretary of the Navy for In-

installations and Environment; and Mr. Thomas W.L. McCall, Deputy Assistant Secretary of the Air Force for Environment, Safety, and Occupational Health.

It is now my pleasure to welcome to the committee and to call on her for any statement she chooses to make, Secretary Goodman.

STATEMENTS OF SHERRI W. GOODMAN, DEPUTY UNDER SECRETARY OF DEFENSE, ENVIRONMENTAL SECURITY, DEPARTMENT OF DEFENSE; LEWIS D. WALKER, DEPUTY ASSISTANT SECRETARY OF THE ARMY, ENVIRONMENT, SAFETY, AND OCCUPATIONAL HEALTH, DEPARTMENT OF THE ARMY; CHERYL KANDARAS, PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE NAVY, INSTALLATIONS AND ENVIRONMENT, DEPARTMENT OF THE NAVY; AND THOMAS W.L. McCALL, DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE, ENVIRONMENT, SAFETY, AND OCCUPATIONAL HEALTH, DEPARTMENT OF THE AIR FORCE

Ms. GOODMAN. Thank you very much Mr. Chairman, and members of the committee, for the opportunity to appear before you today.

I ask that my statement be entered into the record in its entirety, as well as those of my colleagues.

Mr. BATEMAN. Each of your statements will be made a part of the record, and you are invited to present oral statements as you may choose.

Ms. GOODMAN. Thank you very much, Mr. Chairman.

The defense of our Nation and environmental protection have a long and connected history. More than 30 years ago, Air Force Chief of Staff, Gen. Thomas White, observed, and I quote, "The mission of the Department of Defense is more than just aircraft, guns, and missiles; part of the defense job is protecting the land, water, timber, and wildlife, the priceless natural resources that make this great Nation of ours worth defending."

Along with this commitment, in the 1960's Congress showed a strong national bipartisan interest in the environment. During this era the Clean Water Act and the Clean Air Act became law, and in 1970 a Republican President and a Democratic Congress created the National Environmental Policy Act, the Council on Environmental Quality, and the Environmental Protection Agency. Now, more than 30 years since General White's statement of DOD's environmental commitment, our Armed Forces have become national leaders in environmental protection. With the continued support of strong bipartisan interests, our Armed Forces have incorporated the tenets of responsible stewardship into almost everything they do from pollution prevention to conservation, compliance, and cleanup of past contamination. They give a high priority to defending our future through environmental security.

Why do we do this? For the same reason that motivates much of what our military does. They determined long ago that environmental security is part of the defense mission, and there are three major reasons why this is true. First, it is to protect the health and safety of the millions of men and women who work, live, and play on our military installations, those men and women who serve our country; second, it is to protect the land mass about the size of the

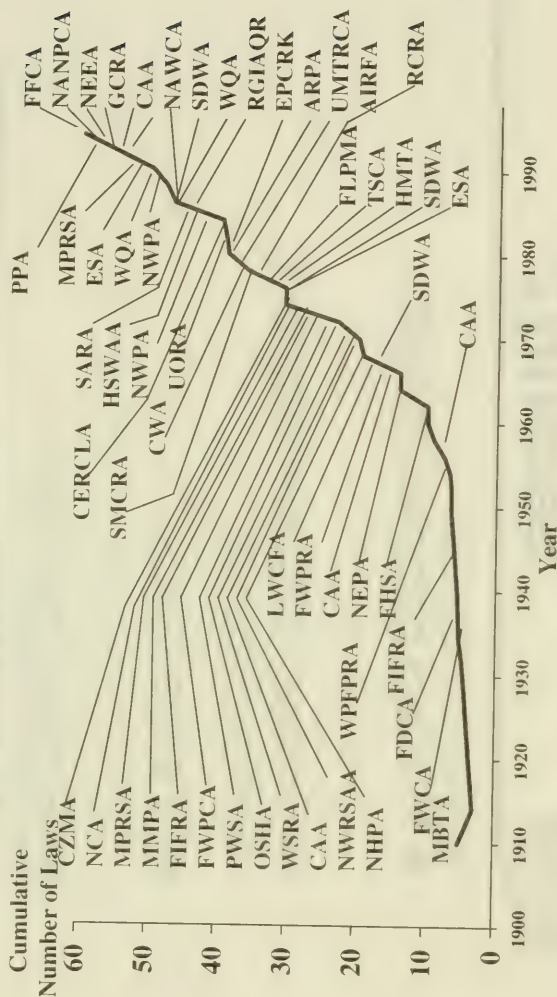
State of Virginia, Mr. Chairman, about 25 million acres, for significant natural resources and to preserve archeological sites and historic buildings, of which we have many on our installations; and, third, it is because we must obey the law.

The Department of Defense is subject to the same environmental laws, Executive orders, regulations, and policies, both State and Federal, as the rest of this Nation.

[The charts follow:]



Federal Environmental Legislation





Why Environmental Security?

- Protect peoples' health ...
- Protect the environment ...
- It's the law ...
- Protect the future ...
- While *PROTECTING THE NATION*



Supports DoD Priorities

- Readiness

- Quality of life

- Modernization



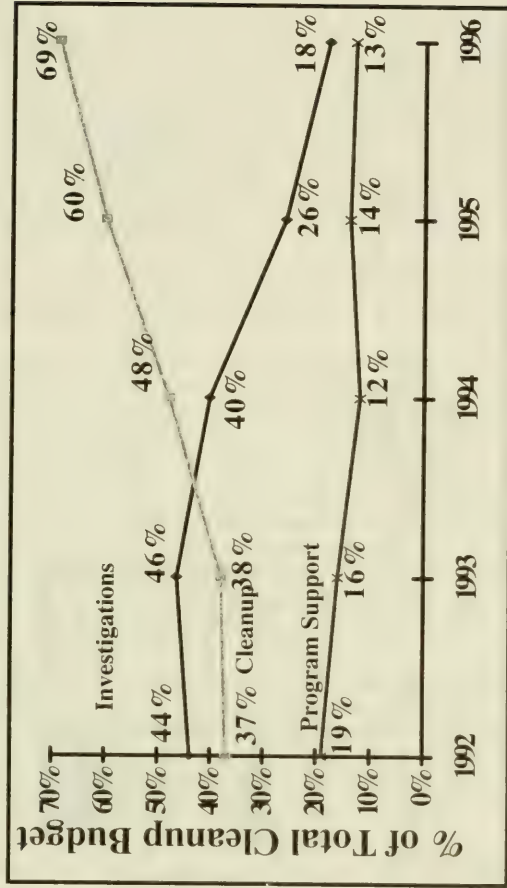
DoD's Environmental Strategy

- Cost avoidance
 - Pollution prevention
- Use of new technologies
- Adopt risk-based management
- Responsible regulatory reform



Cleanup Trends

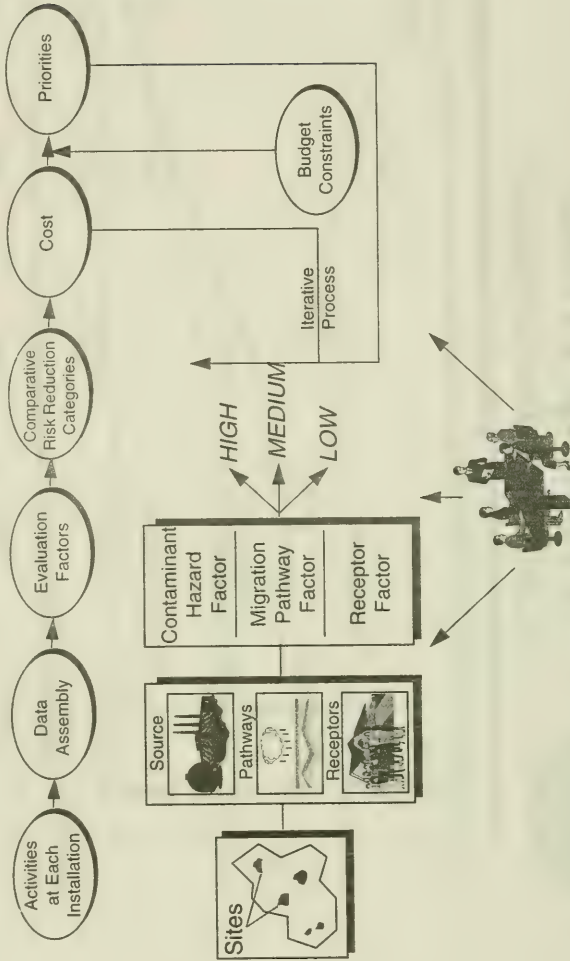
Cleanup v Investigations



Fiscal Year

Environmental Security -- Defending Our Future

Comparative-risk-reduction management



*Local, State and Federal Stakeholders
Environmental Security -- Defending Our Future*

Ms. GOODMAN. As you can see, there has been quite a growth in environmental laws in this country passed by this Congress over the last several decades. All apply to the Department of Defense, and, in fact, one could have a similar chart for every State because each State has also passed its own laws. Military commanders and civil commanders and personnel, civilian employees, and contractors can be held criminally and civilly liable for failing to comply. As the Navy's top environmental officer told Navy Times, if we fail to comply with laws and regulations the operational and readiness impacts can be absolutely devastating; we can be forced to cease operation.

Now, in addition, environmental security supports DOD's major priorities. Those three are readiness, quality of life, and modernization.

Let's take readiness. A key readiness requirement is continued access to the air, land, and water we need for training and testing. On the 25 million acres of land that the Department of Defense manages, there are significant natural and cultural resources. Careful use of this air, land, and water, for example as the Army does out at Pinon Canyon, will help us maintain the ability to continue to use that land responsibly. We need to continue to have access to that land, air, and water particularly at this time of downsizing, bringing our troops home from overseas and reducing our base structure in the United States. The faster we clean up contaminated sites, the quicker we can put these lands back into use.

Second, quality of life. Environmental security protects the quality of life of our forces and their families. As all of us know, our military makes extraordinary sacrifices to protect the Nation's security. The very least we can do is give them the same protection from environmental hazards that the rest of America expects and enjoys. Military workplaces and installations should be at least as safe as this hearing room.

Third, environmental security enhances our modernization through investment in pollution prevention and environmental technology. In the Department of Defense about 80 percent of the hazardous materials that we generate results from the weapons systems acquisition process. They create the need for cleanup and compliance. If we can prevent this pollution in the first place, it saves money overall. That is why DOD now attempts to include the life cycle environmental costs in its weapons systems planning process.

For example, we have already reduced the hazardous material life cycle costs for the B-1 bomber by 30 percent over that of the F-16 because we understood what those hazardous materials were up front and tried to design them out of our weapons systems. These efforts enhance modernization by providing weapons systems at lower cost, with improved performance and better environmental characteristics.

Over the last 2 years I have visited many of our military installations, including many in your districts, and have seen with my own eyes how our forces incorporate environmental protection into the defense mission. They consider it part of their job today. Our forces are defending a beautiful Nation and want to keep it that way.

Every large industrial organization in America has an environmental program to protect its people, preserve its access to resources, comply with the laws, and be a good corporate citizen. It is just plain good business. The Department of Defense is the Nation's largest industrial organization. We have over 400 plants around the country. So, environmental security is both critical to the defense mission and just plain good business.

Now, I want to give you a little historical perspective. As I said, this program did not begin in this administration. The program, as we know it today, actually began during the last administration. Defense Secretary Cheney spelled out its components in a memorandum to the military departments in 1989 in which he said, "I want the Department of Defense to be a Federal leader in agency environmental compliance and protection. We must demonstrate commitment with accountability for responding to the Nation's environmental agenda. I want every command to be an environmental standard by which Federal agencies are judged."

Our installations are both large industrial operations and small cities. And now, by way of showing you one prototypical base, the Norfolk Naval Base, I would like to point out the relationship between day-to-day military operations and environmental considerations.

First, let's start with the mission-related activities. At Norfolk Naval Base, as on many of our bases, we are painting aircraft, we are maintaining aircraft, we are maintaining ships, and involved in that is a lot of fuel. Those all involve handling and managing hazardous materials and having permits that allow us to do these functions in compliance with the Clean Air Act, the Clean Water Act, and our major hazardous waste laws, both Federal and State. In addition, to manage the fuel for both aircraft and for ships, we need underground storage tanks, and we have to manage those. We have many old ones on our installations and some of them leak, so we will have to upgrade them or remove them.

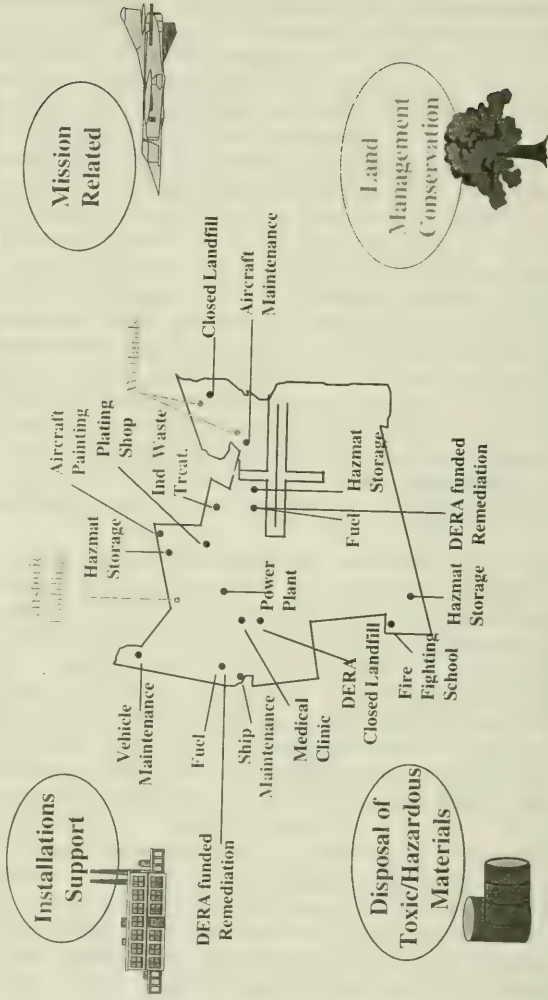
Involved in these hazardous materials related to the mission then becomes the need to dispose of the toxic or hazardous materials as shown here in red, and, as you can see, at Norfolk we have hazardous materials storage at a number of locations around the base, and we have an industrial wastewater treatment plant to manage the waste from those operations. We are getting better at managing that through such concepts as pharmacy, where we manage our hazardous materials much like you would prescription items from the drug store, you only dispense what you need. But, nonetheless, we are still a large user of hazardous materials.

Moving on to installation support, again, basic things like maintaining our vehicles. The medical clinic which produces waste and the firefighting school and the plating shop, all of which produce waste, have to be managed properly. Then, of course, in conjunction with a number of these operations there have been releases into the ground and, therefore, we have to do some cleanup. As you can see, at Norfolk we have a DERA-funded remediation located near our fuel farms, the fuel farms for the ships or the fuel tanks that service the aircraft by the flight line. In addition, we have some landfills, and those have to be closed and maintained. Finally, down in the green you see land management and conservation, and

of course we have historic buildings at Norfolk, as we do on many of our bases, and we have wetlands or natural resource areas.



Naval Base Norfolk



Environmental Security -- Defending Our Future

These activities here then conform to the pillars of DOD's environmental programs. First, compliance to ensure DOD complies with our Federal, State, and local environmental safety and health laws, and protects the people who are working on this base. Second, pollution prevention to reduce the use of the hazardous materials and curb the emission of pollutants in military operations as well as in weapons systems acquisition, manufacturing operations, and maintenance. Third, conservation to responsibly manage those lands and historic sites that DOD holds in public trust. Fourth, to clean up and restore the old sites contaminated with either toxics, explosives, or hazardous waste that are legacies of the cold war. Then finally, environmental technology to find and implement new ways to clean up and protect our resources quicker, cheaper, more effectively, and more safely.

Pollution prevention and environmental technology help reduce future liability and environmental costs. For a little money now we can prevent bigger cleanup and compliance costs down the road. Cleanup, compliance, and conservation are the distinctly "must do" elements of environmental security. We must remediate and restore contaminated sites by law and comply with Federal and State environmental laws and regulations. As Secretary Cheney said 5 years ago, cleanup and compliance will be treated as fundamental costs of doing business, costs that will be routinely factored into plans, programs, and budgets.

Conservation, for example, requires DOD to comply with endangered species and historic preservation laws and allows DOD to preserve these resources for this and future generations of Americans.

Since I know you have expressed a particular interest in environmental restoration or cleanup, I would like to turn to that now.

In 1984 during the Cold War, recognizing that DOD had an enormous toxic waste problem on its hands, President Reagan signed legislation crafted by Senator Ted Stevens of Alaska to create the Defense Environmental Restoration Program. Two years later, President Reagan signed the Superfund Amendments and Reauthorization Act of 1986 and issued Executive Order 12-580 which required the Federal Government, including the Department of Defense, to comply with environmental cleanup standards. These are the major drivers of our environmental restoration program both for active bases and for our closing bases.

I would like to tell you more about both the performance of the program and our priorities since you have asked about both, and on this slide you can see that we continue to execute larger portions of the defense environmental restoration account, also called DERA, but executed on shovel-in-the-ground or dirt-moving activities of real cleanup while limiting the amount we spend on investigations and analysis, and for fiscal year 1996 we propose to spend almost 70 percent of it in that way. We have accomplished this by early identification of cleanup opportunities using what are called interim remedial actions—to go in rapidly and work to gain the support of regulators and the community.

Now this is not to say we can do without all investigations, as some would have you believe. Investigations are an integral part of this effort, not just some paperwork shuffling. Just as a military

commander must first conduct surveillance and reconnaissance of the enemy and then develop a detailed battle plan before marshaling his attack forces, we must first understand the types, locations, and severity of the contamination as well as the physical characteristics of the site before we act to remove it. Through preliminary investigation we can prevent unnecessary cleanup expenses if the analysis uncovers no evidence of contamination.

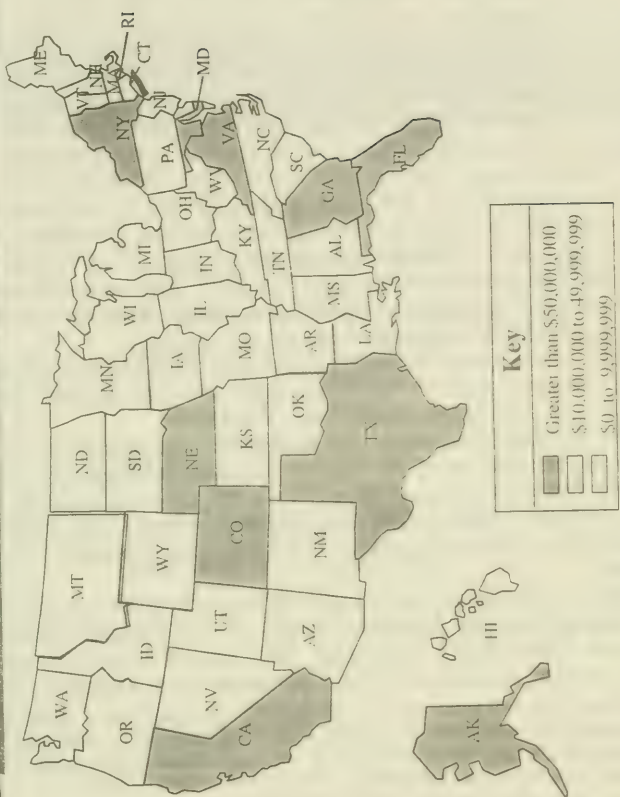
We also need to maintain a level of investigation that will provide the analytic basis for future cleanup actions. I believe this is the right trend, and I believe our fiscal year 1996 levels of cleanup and investigation are where we need to stay.

I want to mention a little about priorities. You asked about priorities, and your next witnesses are prepared to discuss priorities for the Department of Defense. I want to tell you that we have already done what they have asked us to do. We are responsible for protecting public health. We know our funds are limited, and we want to ensure that we can do the best we can with limited resources, so we have developed a sequencing tool to prioritize our work based on risk to human health and the environment, and you can see this on this slide which we use now to develop our relative risk-based site evaluation.

We are going to evaluate our sites not to determine if the remedial action is needed but to categorize the threat of existing site characteristics as compared to a base line. So what we will do is look at three simple factors, and you can see them on this chart. One, what is the source of the contamination? In other words, is it a petroleum, is it a solvent, is it a heavy metal? Second, what is the pathway? How is it moving? Is it in the water, or is it in the soil? And third, who are the receptors? Simply said, are there some children at a playground right next to this contaminated plume, or is it in some remote location? Using those three factors to evaluate our sites and in conjunction with our stakeholders in the community and the regulators, we will rank our sites relativity as high, medium, and low risk. We are presently working with our restoration advisory boards at each of our installations to accomplish these evaluations. We will use these evaluations to determine the sequence of sites at each installation.

We are also evaluating how we can use generic remedies more effectively across installations and between installations. For example, if we have cleaned up a site contaminated with petroleum products, which we have at 60 percent of our sites such as Norfolk, using a technology today known as bioventing, which is little bugs in the ground, then when the conditions are similar at another site we will use the same remedy without evaluating a multitude of different alternatives. This saves time and money. We have recently collaborated with EPA and other agencies to publish technology screening guidelines which present viable technology approaches for typical site conditions.

Environmental Restoration, Defense FY96 Budget Distribution By State



Environmental Security -- Defending Our Future

Now I showed you Norfolk, but I want to tell you somewhere else we are doing cleanup work funded by the DERA account, and as you can see on this chart, we are doing it in all 50 States of the country. And on this chart you can also see the relative distribution of the work and you can see those States in which most of the work occurs or in which a large portion of the work occurs. Those listed in red or purple on your chart are States where the Department of Defense will invest over \$50 million in 1996 and in some places closer to \$100 million. Those include Virginia and Colorado, New York, Maryland, Georgia, Florida, Nebraska, Texas, California, and Alaska. Of course, those States are also the ones where we have our major military installations, so that is not surprising.

Our plan to meet future environmental needs in this era of tight fiscal constraints has four components. First, we are focused on cost avoidance through pollution prevention. Investments to eliminate or reduce the use of hazardous materials at the source means an end to future environmental liability and greatly reduced compliance costs. I hope that my children don't have large cleanup bills to worry about as we have today.

Second, investment in environmental technologies that lower the costs of cleanup and compliance and provide a good return on investment, as you mentioned, Mr. Chairman.

Third, we need to adopt a risk-based management approach, the one I just showed you, to ensure we can address our highest risk problems first.

And, fourth, responsible regulatory reform will help us in the out-years to continue to make the most progress with the resources available.

Perhaps no conclusion is more fitting than the message from the Commandant of the Marine Corps in the Trainers Environmental Handbook from Camp LeJeune, NC, which sums up readiness and environmental concerns of the Department of Defense. It says,

We can and we will find ways to train and accomplish our mission in a manner that protects the health of our people, the public we serve, and the lands we use. As stewards of our air, land, and water, we must ensure that today's activities preserve these resources for tomorrow. Proper care of our environment is cost effective in the long term, and it is the right thing to do.

Thank you very much, Mr. Chairman. I would be happy to answer your questions.

[The statement of Ms. Goodman follows:]

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HOUSE NATIONAL SECURITY COMMITTEE

**DEPARTMENT OF DEFENSE
ENVIRONMENTAL SECURITY PROGRAM**

STATEMENT OF

SHERRI W. GOODMAN

DEPUTY UNDER SECRETARY OF DEFENSE
(ENVIRONMENTAL SECURITY)

BEFORE THE

SUBCOMMITTEE ON INSTALLATIONS AND FACILITIES
AND
SUBCOMMITTEE ON READINESS

MARCH 24, 1995

NOT FOR PUBLICATION
UNTIL RELEASED BY THE
HOUSE NATIONAL SECURITY COMMITTEE

ENVIRONMENTAL SECURITY -- DEFENDING OUR FUTURE

Defense of our nation and environmental protection have a long, connected history. More than 30 years ago, Air Force Chief of Staff, General Thomas D. White observed, "The mission of the Department of Defense is more than just aircraft, guns, and missiles. Part of the defense job is protecting the land, water, timber, and wildlife -- the priceless natural resources that make this great nation of ours worth defending."

Concurrent with this DoD commitment in the 1960's was a strong national bi-partisan interest in the environment. During this era, the Federal Water Pollution Control Act Amendments, the Clean Air Act, and the Clean Water Act became law. In 1970, a Republican President and a Democratic Congress created the National Environmental Policy Act, established the Council on Environmental Quality, and created a new independent agency, the Environmental Protection Agency, which brought together, in one agency, pollution control programs concerning water, air, solid wastes, pesticides, and radiation.

Now, more than 30 years since General White's environmental commitment, our armed forces have become national environmental leaders. With the continued support of strong national bi-partisan interests, our armed forces have incorporated the tenets of responsible stewardship into almost everything they do: from pollution prevention to conservation, compliance and cleanup of contaminated sites. They've given a high priority to defending our future through environmental security.

Why? For the same reason that motivates much of what our forces do: They determined long ago that environmental security is part of the defense mission. There are three major reasons why this is true.

1. Environmental Security Programs:

- Protect the health of several millions of men, women and children who work, live, and play on our installations;
- Protect a land mass about the size of Tennessee for significant natural resources, and preserve archeological sites & historic buildings;
- Fulfill legal requirements: The Department of Defense is subject to the same environmental laws, executive orders, regulations and policies -- both state and federal -- as the rest of the nation. Military commanders and personnel, civilian DoD employees and contractors can be held criminally or civilly liable for failing to comply. As the Navy's top environmental officer told Navy Times, "If we fail to comply with laws and regulations, the operational and readiness impact can be absolutely devastating. We can be forced to cease operation."

In addition, Environmental Security supports DoD's major priorities: readiness, quality of life, and modernization. A key readiness requirement is continued access to air, land and water for training and testing. On the 25 million acres of land managed by DoD are significant natural and cultural resources. Careful use of the air, land and water ensures our forces will continue to have access to these resources to train and operate. And the faster we clean up contaminated sites, the quicker we can put these lands back into use.

2. Environmental security protects the quality of life of our forces and their families. As all of us know, our military makes extraordinary sacrifices to protect the nation's security. The very least we can do is give them the same protection from environmental hazards that the rest of America expects and enjoys. Military work places and installations should be as safe as this hearing room.
3. Environmental security enhances modernization through investment in pollution prevention and environmental technology. About 80% of the hazardous material generated by DoD (creating the need for cleanup and compliance) results from the acquisition process. If DoD can prevent this pollution in the first place, it saves money overall. That is why DoD now endeavors to include the life-cycle costs of its weapons in the planning process. By so doing, DoD has already reduced hazardous material life-cycle costs for the B-1 bomber; they are 30% less than the F-16 because environmental issues were considered in the design stage. These efforts enhance modernization by providing weapons systems at lower cost with improved performance and better environmental characteristics.

Over the past two years, I've visited many of our military installations and seen with my own eyes how our forces incorporate environmental security into the defense mission. They consider it part of the job. Our forces are defending a beautiful nation and they want to keep it that way. As Deputy Under Secretary of Defense for Environmental Security, it's my job to support their efforts. I urge this Committee to join me in making sure our forces can continue this work. It's indivisible from the defense mission.

But it's more than that. Every large industrial organization in America has an environmental program to protect its people, preserve its access to resources, comply with the law and to be a good corporate citizen. It's just plain good business. The Department of Defense is the nation's largest industrial organization. The Environmental Security program is both critical to the defense mission and just plain good business.

Bi-Partisan History of Environmental Security

Before I outline the Environmental Security program for FY 1996, I want to take a few moments to put the program into historical perspective.

DoD's environmental efforts did not begin with the Clinton Administration. The program as we know it today actually began during the Bush Administration. Defense Secretary Cheney spelled out its basic components in a memorandum to the Secretaries of the Military Departments in 1989. In it, he said,

"I want the Department of Defense to be a Federal leader in agency environmental compliance and protection. We must demonstrate commitment with accountability for responding to the Nation's environmental agenda. I want every command to be an environmental standard by which Federal agencies are judged."

DoD's environmental mandate goes back even further. In 1984, recognizing that DoD had an enormous toxic waste problem on its hands, President Reagan signed legislation crafted by Senator Ted Stevens of Alaska to create the Defense Environmental Restoration Account. Two years later, President Reagan signed the Superfund Amendments and Reauthorization Act of 1986, and issued Executive Order 12580, which require the Federal Government, including the Department of Defense, to comply with all environmental cleanup standards.

Congress passed and Presidents Reagan and Bush signed a number of laws over the past decade that increased the defense environmental mandate. But this didn't start the military services on the road to protecting the environment; in effect, these laws endorsed the military's work. Our armed forces were ahead of the curve. To ensure that their work got the profile and priority it deserves at the Pentagon, the Secretary of Defense created the Office of Environmental Security.

The Defense Environmental Security Program is broken down into five missions or pillars:

1. **Compliance:** to ensure DoD complies with our federal, state and local environmental, safety and health laws -- and protects lives.
2. **Pollution Prevention:** to reduce the use of hazardous materials, and curb the emission of pollutants, in military operations as well as in weapons systems acquisition, manufacturing, operations and maintenance.
3. **Conservation:** to responsibly manage the lands and historic sites that DoD holds in public trust.
4. **Cleanup:** to restore DoD facilities contaminated with toxic, explosive, or hazardous waste, legacies of the cold war.
5. **Environmental Technology:** to find and implement new ways to cleanup and protect our resources quicker, cheaper, more effectively and more safely.

Pollution prevention and environmental technology help reduce future liability and environmental costs. For a little money now, we can prevent bigger cleanup and compliance costs down the road.

Cleanup, Compliance and Conservation are the distinctly "must do" elements of Environmental Security -- we must remediate and restore contaminated sites, and comply with federal and state environmental laws and regulations. As Secretary Cheney said five years ago, "cleanup and compliance will be treated as fundamental costs of doing business, costs that will be routinely factored into plans, programs and budgets." Conservation requires DoD to comply with, for example, endangered species and historic preservation laws, and allows DoD to preserve these resources for this and future generations of Americans.

DoD's Environmental Strategy

Our plan to meet future environmental needs in an era which presages tight fiscal constraints, has four components.

1. Future cost avoidance through pollution prevention; Investments to eliminate or reduce the use of hazardous materials at the source means an end to future environmental liability and greatly reduced compliance costs.
2. Investment in environmental technologies that lower the costs of cleanup and compliance and provide a good return on investment.
3. Adoption of risk-based management to ensure we are addressing the highest risk problems first.
4. Responsible regulatory reform to help us in the out years to continue to make the most progress with the resources available.

I'd like to outline our accomplishments and our plans for FY 1996. The Department's Environmental Budget for FY96 is illustrated in the chart below, showing each of the program components of Environmental Security.

(Insert Environmental Security FY96 Budget Graphic)

Compliance

In 1989, former Secretary of Defense Cheney directed that the department fund environmental compliance and pollution prevention to achieve sustainable compliance with federal and state environmental laws. Under the present leadership of Secretary Perry, that commitment has continued.

The compliance budget is composed of operations and services, and projects. Operations and services include sampling and testing of drinking water or sewage treatment plant effluents, disposal of hazardous materials, and preparation of environmental assessments. Compliance projects generally involve the construction, modification or repair of a facility, such as a sewage treatment plant, to meet a new or existing environmental standard.

The Department was successful in its FY 1994 compliance goal. It reduced the number of open notices of violation (NOVs) by 7 percent. New NOVs have fallen by approximately 47 percent since 1992, even though EPA's enforcement inspections have increased. These improvements are due to more vigorous compliance efforts by DoD components, increased use of self assessments, better dissemination of information, improved education and training, and an increasingly effective pollution prevention program.

In FY 95, DoD will continue many of the compliance efforts that have proven successful over the past few years. Specific actions include the continued effort to replace and upgrade underground storage tanks, the upgrade of waste water treatment plants to meet tighter state and local standards, and the upgrade of air emission sources to meet new rules under the Clean Air Act of 1990.

In addition, the Department has established a system of 10 regional Environmental Security executive agents -- one for each EPA Federal region. The mission of these agents is to improve communication and coordination among DoD Components and regulators, with the goal of improved and more efficient compliance. By working closely with regional, state and local regulators, the executive agents will be able to ensure DoD's operational requirements are addressed during the development of new regulations and that the military facilities within the region are informed of new requirements in a timely, efficient and uniform manner.

The DoD has worked closely with the EPA offices and state legislatures on the development of implementing rules for environmental laws. The main emphasis is to ensure that any investment forced by a new rule yields a reasonable improvement to the environment. Furthermore, the DoD wants to consider pollution prevention projects which eliminate or reduce the regulated contamination as the preferred response. Costly compliance projects or operations are considered the option of last resort.

Let me explain the relationship between day-to-day military operations and the environment. The day-to-day operations that go on at installations are intimately connected with everyday environmental compliance. An installation cannot have one without the other. On a daily basis, installations at home and abroad:

- Provide heat and electricity to maintenance shops, administrative buildings, housing units; conduct painting and rework operations associated with maintaining aircraft, tanks, and ships; operate fuel storage and transfer facilities; and incinerate medical waste - all of which require Clean Air Act controls and permits.

- Treat and dispose of wastewater's generated by industrial shops (such as plating operations and paint booths) and domestic sources, such as wastewater generated by base housing units - requiring treatment and discharge in compliance with the Clean Water Act requirements.
- Generate hazardous wastes, such as spent solvents and toxic metal-bearing wastes from aircraft painting, corrosion control, engine maintenance, and plating operations -- some of which require Resource Conservation and Recovery Act hazardous waste treatment, storage, or disposal permits.
- Store and dispense a variety of petroleum products to fuel and lubricate ships, aircraft, tanks, trucks, emergency equipment, boilers and generators, and other equipment vital to their missions. Handling of these and other hazardous materials in above ground and underground storage tanks is subject to various environmental laws requiring structurally sound tanks equipped with leak detection capabilities and spill prevention and emergency response plans.

DoD is subject to the same environmental, health and safety regulations as private industry, and it must plan and budget for environmental compliance just as any large company would. The Fiscal Year 1996 request is \$2.205 billion, reflecting DoD's commitment to support readiness and meet environmental laws and regulations. The largest component of the FY96 Compliance request, 35%, will be devoted to meeting the provisions of the Clean Water Act. A total of 31% will be directed to hazardous waste management under RCRA, and 14% will be funding compliance to meet the regulations of the Clean Air Act. The remaining 20% will fund compliance with the Toxic Substances Control Act Amendments of 1984, the Marine Plastic Pollution Control Act of 1987 and environmental assessment and planning regulations.

Pollution Prevention

Pollution prevention averts environmental contamination and degradation by materials management at every level of Defense operations; reducing the volume and toxicity of substances that are released or need disposal. It also reduces future compliance costs. Only by eliminating hazardous materials or those processes that generate hazardous by-products can we begin to reduce overall costs. Simply put, "an ounce of prevention is worth a pound of cure." The Military Departments are now conducting fence to fence surveys to identify pollution prevention opportunities. They are prioritizing these opportunities based upon return on investment and the health risk of the existing process or material. Pollution prevention is a good business approach. Most projects pay for themselves in three years or less. In addition, many of the new processes do the job better, safer, faster as well as cheaper. In other words, they contribute to readiness, modernization and quality of life. An example is the aqueous washer for airplane parts. These aqueous washers clean the parts with less rejects than the old chemical solvent process. In addition, they do it in a fraction of the time previously needed. Other high payback examples include:

- New explosive materials that are reusable/recyclable and have significantly greater energy density and lower production cost;
- High velocity spray techniques for applying coatings that eliminate toxic chromium waste and increase piston lifetime by 3 to 10-fold;
- High pressure water blasting, using non-toxic detergents, for paint stripping and cleaning which reduces solvent consumption, waste and cost.

Several outstanding pollution prevention programs include those at Naval Station Mayport, Tinker Air Force Base and Naval Aviation Depot (NADEP) Jacksonville. They have all developed hazardous material pharmacies, cradle-to-grave centralized control centers for the purchase and control of hazardous materials. The systems have streamlined tracking by placing bar code labels on all containers used to dispense hazardous materials. Excess material or empty containers must be returned within 5 days. The environmental control centers, which dispense hazardous materials, achieve a high degree of cooperation by ensuring that all requests of materials are delivered within 60 minutes. Rapid and ensured delivery eliminates the need to store large volumes of materials at the shop level. Benefits include: spill risk reduction, reduced procurement, reduced waste generation and, most importantly, a net reduction in costs. NADEP Jacksonville has achieved, over a three year period, a \$3.6 million reduction in purchases of hazardous materials, a 50% reduction in chemical use, and a 75% reduction in shop stocks because of their effective action. Across DoD our military is creating these pharmacies to manage hazardous materials and avoid costs.

The pollution prevention goal is to reduce use and emissions of toxic and hazardous materials to as near zero as practical in order to:

1. Protect health and the environment;
2. Save and avoid costs;
3. Meet legal requirements.

Over the last ten years hazardous waste disposal costs across the nation have increased four fold, from \$600 per ton to \$2,500 per ton. During this time, the Army reduced its hazardous material generation by over 70%, thus saving hundreds of millions of dollars.

<i>(Insert Pollution Prevention Graphic)</i>

Reducing waste disposal is essential to cost saving, and it also reduces procurement and inventory costs.

Pollution Prevention is a critical component of our Environmental Security strategy for the future. When incorporated into an overall program of modernization it protects health, the environment, and quality of life; by controlling costs long term it supports readiness. Let me provide a few examples.

- **Weapons Acquisition.** DoD and its suppliers are taking advantage of pollution prevention opportunities at the very beginning of the weapon system acquisition process. There are well established requirements for managing installations, but only now are we beginning to lower costs, by designing hazardous materials out of our weapons systems. For example, the Navy's ship of the 21st century, designed to include environmental considerations, will have much lower life-cycle costs and be virtually free of ozone depleting substances.
- **Weapons Manufacturing, Maintenance and Operation.** Working with the private sector, DoD in 1994 adopted National Aerospace Standard 411. This standard provides a systematic process for managing hazardous materials over the approximate 30 year life cycle of a weapon system.

The Department is requesting \$322 million this year for these high-payback efforts that have become the keystone of the Environmental Security program.

This investment will continue to integrate pollution prevention into weapon system acquisition through life-cycle costing and standardized document and specifications review to reduce or eliminate hazmat use. It will provide funding to reduce present day baseline toxic releases 50% by 1999, and to reduce or eliminate use of ozone depleting chemicals.

Conservation

Land and water access for military operations and training is a perishable commodity, not easily acquired. We need to protect this access so we can use these lands and waters again and again. Sound management of our natural and cultural resources sustains the military mission and protects these important resources. The DoD controls over 25 million acres of land, the size of Tennessee. Most of this land is held to support readiness training or testing of new weapon systems. As stewards of the land we need to conduct defense operations in a manner that minimizes impact on the environmental resources. DoD lands and waters are home to over 300 threatened and endangered species and over 100,000 archeological sites. One hundred fifty bases have properties listed or eligible for the national register of historic sites. In many cases, because of the protection afforded by the military reservation, these resources have flourished and been preserved. Some endangered species exist only on military lands. Most conservation management measures support the Department's priorities of readiness and quality of life. Others are simply the right thing to do. Here are some examples.

- **Tank and Troop Training.** The Pinon Canyon Training area at Fort Carson is on a 2 year rest and rotation schedule for 25 training subunits where at any given time, at least 50% of the total land is in use. Rest and rotation provides the best training possible by eliminating the trails and vegetation gaps caused by prior exercises. It also provides more realistic training by presenting the widest variety of venues while reducing training area maintenance costs by spreading out activity over a larger area.
- **Amphibious Training.** MCAS Kaneohe Bay, Hawaii; amphibious exercises here actually enhance habitat for nesting of endangered species by breaking up the area and providing "islands" of protection in Hawaiian silt from predators.
- **Enhanced Management of Threatened and Endangered Species.** Active management of protected species can ensure DoD's continued ability to conduct the military mission. Marine Corps efforts at Camp Pendleton have led to a tripling of the population of the endangered least Bell's vireo. These efforts convinced the Fish and Wildlife Service not to designate about 10,200 acres on the base as critical habitat. The air station would have been forced to curtail operations if this designation had been made.
- **Preserving Historic Sites and Buildings.** Many military installations were established during our nation's early westward expansion. Others contain more recent physical remnants of our military history. These historic buildings and sites are all part of our national heritage. These resources are important to the facility and the community where they are located. Many can also have a much wider regional or national significance.
- **Military Stewardship.** One of the most impressive manuals in use today is the Trainer's Environmental Handbook, which was prepared at Marine Corps Base Camp Lejeune, North Carolina by the senior base commanders. This document illustrates how military doctrine can be incorporated with resource protection.

DoD is requesting \$145 million in FY 96 for conservation, which includes \$10 million for the Legacy account, and \$135 million for the military Services' conservation programs.

In 1996, we will focus resource inventories on sensitive areas to protect military activity options, develop a curation system, and identify and return Indian remains and artifacts to ensure our military missions can continue without legal impact.

Cleanup

I want to outline for you the strategy we are using in funding DERA, the Defense Environmental Restoration Account. With the pressures on the Federal budget and Defense budget specifically, we want to ensure our environmental cleanup efforts are appropriate and cost effective. Restoring toxic waste sites is a "bill" resulting from DoD's past operations and maintenance

activities. Our cleanup bill, like that of private industry, arises from years of using hazardous materials in what were then legal but environmentally detrimental ways. As we know now, those practices were destructive and have endangered human health and the environment; their restoration is politically charged, costly, and technically difficult. I would like to describe for you the Department's efforts to address each of these areas and let you know how you can help us pay this "bill" appropriately. To understand our strategy, it is important that you understand the nature of the cleanup program.

The identification and clean up of contaminants from soils and ground water requires managing a great deal of uncertainty -- uncertainty about the extent and threat of contamination and about the expectations of regulators, communities, and other stakeholders. In both, there is a balance between taking early action and gathering more information about the extent of the threat. This uncertainty can be exacerbated by uncertainties in funding levels.

Uncertainty results from the lack of perfect information about varying soil and water conditions of the potentially contaminated site and the extent and concentration of the pollutants. DoD sites are generally fairly similar to those of private industry.

A variety of types of sites are found at military installations. Typically, the most difficult type of sites to assess are landfills and those sites with significant ground water contamination. For ground water contamination, the flow of water through the soil and the connection of various aquifers presents a challenge. For landfills, the challenge is to determine the location and type of contaminants when materials placed in landfills were usually not separated. For example, landfills may contain waste oil and paint, demolition debris, toxic chemicals, metal wastes, sewage sludge, hospital or medical wastes, and pesticides. These types of sites require fieldwork, laboratory analysis and often ground water modeling to determine the soil layering conditions and the flow of ground water through the layers. These efforts are similar to the techniques the oil and mining industry use to search for oil, gas and minerals. These efforts (e.g. drilling and sampling) are the "study" used to determine the characteristics of a site, potential contaminants, the concentration of the contaminants and alternatives for mitigating the impact of those contaminants on human health and the environment. At some sites, this type of investigation reveals that contamination is not above cleanup standards or that the contamination is of low enough concentration not to impact adversely human health and the environment. These sites can be "closed out" as a result of the study efforts, saving money by preventing costly remediation efforts. At other sites, close out can be based on removal of the contamination. At many sites, particularly those with contamination from petroleum products, contamination will naturally deteriorate over time (natural attenuation). This type of site requires only a minimal amount of cleanup and some monitoring. For the more complex sites, a significant amount of site characterization is required, alternatives must be evaluated, and cleanup work accomplished based on the results.

Of course, this management of uncertainty is done under agreements or the potential for an agreement that are entered into pursuant to federal and state environmental restoration laws. These agreements range from Interagency Agreements for installations on the National Priorities List, RCRA Corrective Actions, Consent Decrees and Court Orders. The enforceable section of these agreements is the clean up schedule which has milestones for activities such as the

completion of drilling & monitoring and the start of cleanup work. Under the terms of many of these agreements, the Services are obligated to seek adequate funding through the DoD budget process to meet agreement milestones. Our goal is to have Restoration Advisory Boards or RABs, which include regulators, community representatives, and other stakeholders participate in the cleanup process. We have found that the RABs are very important to successful community relations, for adding a reality check to our clean up plans, and to assist in community support of plans.

Although the laws do not mandate that all sites be cleaned up at once, we have found that our policies and practices do not always address the worst sites first. Our funding strategy over the last few years has been to fund those efforts that we were legally required to take according to cleanup agreements and schedules. Since funding was based on legal requirements and only immediate legal requirements would receive funding, regulators were driven toward imposing more requirements sooner. This approach did not necessarily take the relative risk to human health and the environment of various sites and projects into account in a systematic way. This cycle of funding forcing agreements and agreements forcing funding has made prioritization of restoration work or identification of future funding requirements, difficult at best. Although, the Department does not seek to avoid agreements, we would like to see more cleanup schedules imposed by agreements reflect the relative risk of the sites.

Another limitation to a stable, cost-effective program is the funding level. For each of the past three fiscal years, FY 1993 through FY 1995, Congress has reduced the DERA appropriation by \$300 to \$400 million, more than 15% of our request. This has required DoD remedial project managers to work with EPA and/or state regulators to renegotiate agreement milestones. When Congressional cuts force DoD to adjust milestones, turmoil results. The DoD remedial project managers must work with the EPA and/or state regulators, as well as the Restoration Advisory Boards, as time permits, and revise the scope and/or timing of the project. These renegotiations have caused delays in finalizing projects and getting them under contract. Since the cuts have been so significant, each Military Component has been forced to review their entire program before proceeding. The cleanup program is not like real property maintenance where repair or maintenance of facilities are individual projects, waiting on the shelf to be awarded. Instead, the cleanup work has milestones established throughout the fiscal year and often depends on the completion of a preceding effort to be completed with regulatory concurrence before proceeding to the next step. Inherently there will be obligations throughout the fiscal year. The impact of appropriation cuts puts this planned phasing for executing projects into upheaval, increasing the uncertainty of the program.

We believe the "bill" from past activities needs to be handled like a mortgage. We need to commit to a stable level of funding which the Congress supports. The Department will then be able to plan and make commitments reliably. The Department has established a stable funding level of \$1.62 billion for DERA for the next five years. Within this funding level we believe we can meet the commitments in the regulatory agreements and focus on executing a consistent, reliable program. However, for this effort to be successful, communities and citizens must feel confident that the funding level is adequate. This circumstance is similar to the anxiety present when you take your car into the repair shop. If you have enough money to buy a new car, you're

not too worried about the bill. But, if you only have limited funds, your anxiety level will be increased. You want to put in only enough money to give you adequate transportation. For cleanup, we want to fulfill our commitments, but we do not need to "buy a new car" with each site.

We are responsible for protecting public health, and to do so we have developed a sequencing tool to ensure that we prioritize our work based on risk to human health and the environment.

Relative risk: Our current approach is to evaluate the "relative" risk of sites, not to determine if a remedial action is needed, but to categorize the threat of existing site characteristics as compared to a baseline. Typically for this analysis, the comparative-risk-reduction categories of high, medium and low are employed. For the "relative" risk evaluation, we are considering the relationship of the contaminant, the pathway and the receptor. The contaminant concentration level is compared to the regulator's preliminary remediation goals. The pathway is considered as completed, potential to be completed or not evident. The receptor is evident, potential or not sensitive. The combination of these factors results in a high, medium or low relative risk designation. We are working with the Restoration Advisory Boards to accomplish these evaluations. We want to use the relative risk evaluations to assist in determining the sequence of sites at each installation. We are also evaluating what the appropriate scope should be for cleanup projects when considering protecting human health and the environment as well as economic considerations. For instance, in some cases it makes sense to move a high relative risk site to the no further action category by removing PCB contaminated soil to a landfill. In other cases, it makes sense to move a high relative risk site to a medium relative risk by installing a pump and treat system to "contain" a ground water contaminated plume to preclude the migration to a public aquifer. We are also evaluating how we can use generic remedies more effectively across an installation and between installations. If we have cleaned up a site contaminated with petroleum products using the technology known as bioventing, then when conditions are similar at another site, we use the same remedy without evaluating a multitude of alternatives, assuming a more innovative technology has not just come to the forefront. We have recently collaborated with the EPA and other Federal agencies in publishing technology screening guidelines which present viable technology approaches for typical site conditions, the characteristics of cleanup technologies and contacts of other "owners" who have remediated typical sites.

I would like to highlight some of our recent successes. We have had some recent initiatives that have proved valuable, such as the relative risk I've already told you about and our efforts to involve communities through the Restoration Advisory Boards. We have implemented the cost saving, partnering initiatives that we've developed over the last couple of years.

- **Pearl City Junction, Hawaii.** By adopting an accelerated cleanup approach at Pearl City Junction, a portion of the Pearl Harbor Naval Complex, the Navy was able to complete a cleanup in three years that would normally have taken five to seven years. The approach consisted of an innovative field investigation, field screening techniques, and public involvement early in the process.

- ***Barrel Bluffs, King Salmon, Alaska.*** The Air Force has devised a \$3 million remedy to cap several dump sites containing thousands of 55-gallon drums contaminated with fuel, oil and toxic chemicals and bulldozed into a bluff. The original remedy, based on excavating the barrels and shipping to a permitted facility, would have cost about \$70 million. The "study" which evaluated all potential alternatives, determined that the lower cost solution was quicker, safer, and well worth the effort.

The projects in our FY 1996 President's Budget request include sufficient funds to meet commitments in our legal agreements, assuming no rescission of FY 1995 funds.

We want to balance our agreement commitments, relative risk evaluation and some level of progress at each "agreement" installation within the context of a stabilized funding level. The scope of the projects we will ultimately execute in FY 1996 will depend on the work which has already been accomplished in characterizing a site, the cleanup alternatives and appropriate next step, the recommended cleanup approach, the concurrence obtained from the regulators and the community, the outcome of renegotiations of schedules based on the FY 1995 Congressional rescission and the appropriated level of funding for FY 1996. If we receive less than full funding, once again schedules will be adjusted, perpetuating the unfunded mandates imposed upon the Department. Some states have threatened to seek fines and penalties from DoD if it is unable to meet these mandatory milestones. As Governor Pete Wilson said in January 1995, "California expects DoD to comply with the federal/state cleanup agreements it has signed at California military bases. The Services are contractually obligated to seek sufficient funding through the DoD budget process to permit environmental work to proceed according to the schedules contained in those agreements. California will not hesitate to assert its right under those agreements to seek fines, penalties and judicial orders compelling DoD to conduct required environmental work." The Attorney General of Texas has made the same claims.

I would like to draw your attention to our annual report on the Department's cleanup program due out later this month. We are again this year focusing tremendous effort to bring you accurate, current, and descriptive information about the program. Many in Congress and in communities found the report to be a valuable resource and informative tool.

We believe DERA should be managed as a mortgage to be "bought out" at a stable funding level with annual work efforts based on sequencing considering relative risk. Your authorization of our budget and endorsement of our strategy will contribute greatly toward taking out some of the uncertainty of the program, enabling our remedial project managers to focus on implementing their clean up plans, and getting the work done. On the other hand, reductions to the FY96 request will push this clean up work out to future years, for future Administrations to address, will leave Americans exposed to health risks, and will impose upon DoD an unfunded mandate.

Superfund Reform

The Department of Defense will benefit from legislative reform of Superfund, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). Last year the Department participated fully in developing the Administration's bill for Superfund Reform. The current law requires costly remedies that vary from jurisdiction to jurisdiction, fosters adversarial relationships between federal and state regulators, and contains obstacles to economic redevelopment.

Major changes to the cleanup process will yield faster, more cost effective cleanups and use more realistic assumptions when determining the threat to human health and the environment. As part of this reform, considering future land use in the decision process will yield cleanups and reuse plans that are better coordinated in a greatly reduced time frame. Focusing more attention on treatment of contamination hot spots while seeking alternative or innovative ways of addressing the less contaminated areas will also provide more realistic, cost effective remedies.

Several other modifications are needed that have great impact on closing bases. First, sites that are not on EPA's Superfund list but are being cleaned up under state regulatory review should remain, in most cases, under state oversight. Listing on the NPL after work has begun under state review usually delays cleanup, gets two regulators involved, and can increase costs. EPA has discretionary authority to defer listing of private sites but not federal facilities in this situation. We must also look at ways to confine the Superfund listing of an installation to contaminated areas only, and move away from traditional fence line to fence line listing. This will allow a more expeditious reuse or transfer of uncontaminated parcels.

In addition, BRAC specific Superfund changes will help return bases to productive reuse more quickly. The first proposal would clarify that DoD can enter into long term leases to reuse portions of contaminated closing bases before remedial actions to clean them up are complete. The proposal also would ensure DoD has access to the property to perform the required remediation.

The second BRAC specific legislative proposal would amend CERCLA to allow either the EPA or a state to waive the requirement for DoD to have all remediation complete prior to selling property. This proposal, similar to purchase agreements private parties can enter into to transfer cleanup liability, would allow DoD to enter into agreements with prospective purchasers and regulators to ensure all remedial actions will be undertaken by DoD after transfer.

BRAC

I want to describe to you the progress the Department has made in the BRAC (Base Realignment and Closure) Environmental Program. Prior to 1993, the Department did not have a process to speedily address environmental concerns at closing bases. In July of 1993, the President announced a five part plan for economic revitalization of base closure communities. One piece of the five part plan is Fast Track Cleanup -- an approach to environmental issues at closing bases

designed to remove needless delays while protecting human health and the environment. DoD established the Fast Track approach to:

- establish cleanup teams of experts at closing bases
- provide effective community involvement
- make clean parcels available
- speed the National Environmental Policy Act (NEPA) process, and
- correct indemnification language to clarify future liability for contamination.

The Department responded quickly to this initiative and has made substantial progress in the past twenty months.

I am often asked the question -- "Is Fast Track Cleanup really any faster?" I am here to tell you that yes -- we are cleaning up sites faster, and focusing our efforts where there is reuse planned. We are accelerating cleanup in many ways. First we are reducing the bureaucratic red tape associated with document reviews. Through partnering efforts of the cleanup teams, agency reviews are being conducted concurrently, reducing overall time.

We are also accelerating cleanup schedules through the use of Interim Remedial Actions (IRAs) to address contamination as quickly as possible, without taking years to study the problem. IRA actions minimize and reduce risk to human health and the environment during ongoing investigatory efforts, in other words -- cleaning up contamination as it is discovered. These quick actions not only assist in cleaning up property for reuse, but they also reduce the time and expense of studies and prevent the spread of further contamination.

Charleston, South Carolina is an example of how Fast Track is preventing environmental issues from impeding reuse. Since Charleston is not on the Superfund National Priorities List, state environmental laws and regulations apply. The BRAC Cleanup Team and Restoration Advisory Board worked together to reduce the cleanup schedule by over six years -- cutting in half the "business as usual" scenario.

Sacramento Army Depot, California is a very recent success story, attributable to a strong BRAC cleanup team and willingness to pilot innovative technology. Using an advanced air sparging system to remove solvents from both the soil and ground water, the Army was able to ready the property for transfer in months instead of years. The Army transferred the property to Packard Bell on March 3, 1995, years ahead of the "business as usual" cleanup time frame.

For FY 1996, the Department is requesting \$457.1 million for BRAC environmental work. The BRAC environmental program, as part of the overall BRAC account, funds more than cleanup efforts. The BRAC environmental program also includes closure-related environmental compliance and planning related to closing installations. Compliance efforts include such actions

as removal of underground storage tanks; closure of hazardous waste treatment, storage and disposal facilities; and abatement of asbestos.

Environmental Technology

The Environmental Technology program makes investments in environmental research and development for military needs and uses. Private sector environmental technologies that have promise in compliance, pollution prevention and cleanup are examined and screened for applicability to the special needs of the Department of Defense. Selected technologies are tested on site, with our regulators, to obtain certification and get more quickly into the hands of end users.

Environmental Technology potentially affects all aspects of defense environmental security by creating a greater ability to prevent pollution at the source, provide compliance at less cost, and create faster, cheaper and more effective cleanup tools. The programs that develop the new environmental solutions to improve DoD performance are the Strategic Environmental Research and Development Program (SERDP), the Environmental Security Technology Certification Program (ESTCP), and the service environment R & D programs. Underlying these programs is the Environmental Technology Requirements Strategy (ETRS) that evaluates DoD user needs and presents them to the R & D community for program formulation. From ETRS, we develop the DoD Environmental Quality R & D Strategic Plan. The plan provides the roadmaps that are used for the future environmental technology base R & D in SERDP, demonstration and validation projects in ESTCP that ensure regulatory and user acceptance, and service-unique R & D.

I have some examples of DoD's strategy to match environmental technology investments to defense needs.

One of the more interesting and useful technologies is a non-toxic coating recently developed by the Navy that employs a minimally adhesive surface coating on ships to reduce maintenance and fuel costs, increase ship availability and rid ships of barnacles and Zebra Mussels. The Navy estimates savings of up to \$100 million from this technology. This product may become a key factor in solving the problem of Zebra Mussel fouling for utility water intakes and canal locks.

Other examples include:

- **Aircraft Depot Maintenance.** A more modern system of aircraft painting has been developed which eliminates the use of primers. Called the Unicoat paint system, it speeds painting, reduces cost and lessens operator exposure.
- **Engine Aircraft Parts Electroplating.** The Strategic Environmental Research and Development Program has funded the development of a twin-wire thermal spray and the ion vapor deposition process that reduces the use of strategic metals and diminish toxic waste residues.

- **Corrosion Control.** The introduction of high volume-low pressure (HVLP) and airless applicators have eliminated overspray problems, minimizing worker exposure and reducing chemical usage.
- **Detection of Unexploded Ordnance.** By using laser polarimetry and thermal IR measurements, new remote sensing technologies perform site characterization at lower cost while keeping personnel safe.
- **Cleanup of Explosives Contaminated Groundwater.** With advanced oxidation treatment, TNT is broken down more quickly into non-hazardous compounds, reducing hazard and accelerating payback.
- **Jet Engine Reuse.** The Air Force is highly dependent on plating processes to rebuild distorted and worn surfaces on jet engine casings and other components. Unfortunately, conventional plating approaches are generally expensive, slow, and generate large amounts of hazardous wastes. The Electromagnetic Particle Deposition process, developed by DoD, applies surface coatings by propelling particles against surfaces at hypervelocities, producing the densest possible coating with the best possible bond strength.

The Environmental Security Technology Certification Program (ESTCP) demonstrates and validates new technologies, promotes regulatory and user acceptance, and recommends direct implementation at DoD facilities. In 1995 ESTCP is supporting demonstrations of techniques to detoxify waste streams at arsenals, limit emissions resulting from aircraft stripping, develop solid propellant disposal techniques, and employ advanced technologies to treat ordnance-contaminated groundwater.

DoD is requesting \$218 million for all environmental technology programs, including \$15.3 million for ESTCP, \$56.7 for SERDP, and \$146 million in Service requests.

Conclusion

Environmental Security supports DoD's priorities of readiness, quality of life, and facility and equipment modernization. In the future, I see great opportunities for Environmental Security to continue its environmental leadership in support of the military mission by protecting personnel and their families from environmental, safety and health hazards, through pollution prevention and a long term view of solving our environmental problems. This approach will strengthen the public's trust of DoD, lead to higher environmental quality, improve performance, and lower costs.

Improved relationships with the various state and federal regulators and participating private entities must be highlighted as a major accomplishment. There is no quantitative measure of how much these working relationships have facilitated quicker and fairer environmental outcomes, and

how the regulatory community has been increasingly willing to recognize the military's readiness concerns and overall mission. The trust of the American people in our work is a treasured commodity.

The excellence of the Army, Navy, Air Force and Marines in not merely meeting regulatory and management objectives, but in employing internal assessments and self examination to improve the quality of environmental management deserves special recognition. Their tradition of getting things done and pride in the quality of the final product has made the DoD environmental program what it is today.

Perhaps no conclusion is more fitting than the message from the Commandant of the Marine Corps in the Trainer's Environmental Handbook for Camp Lejeune, North Carolina, which sums up the readiness and environmental concerns of Environmental Security:

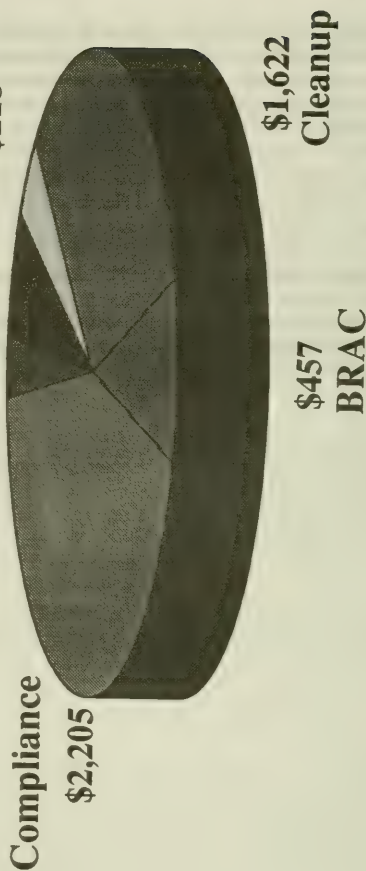
"We can, and we will, find ways to train and accomplish our mission in a manner that protects the health of our people, the public we serve, and the lands that we use. As stewards of our air, land, and water, we must ensure that today's activities preserve these resources for tomorrow. Proper care of our environment's cost effective in the long term and it's the right thing to do."



Environmental Security FY 1996 Budget

\$4.969 Billion

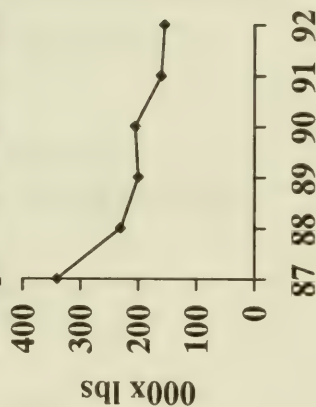
	Pollution Prevention	Technology
Conservation	\$145	\$322
Compliance		\$218



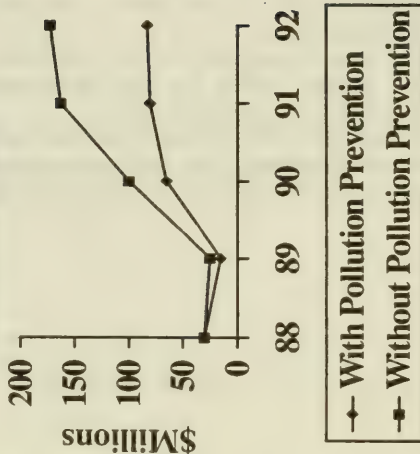


Effects of Pollution Prevention Activities on Disposal Costs

Hazardous Waste Disposal DoD Wide



Disposal Costs



Mr. BATEMAN. Thank you very much, Secretary Goodman, and I commend you for the excellent statement you have made on behalf of the Department.

I will now recognize in turn any of the other Secretaries of the military departments for any comments they may choose to make starting with Secretary Walker.

Mr. WALKER. Mr. Chairman, we are here to respond. You have my entire statement. We will respond to questions. Thank you.

[The statement of Mr. Walker follows:]

RECORD VERSION

STATEMENT BY
LEWIS D. WALKER
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(ENVIRONMENT, SAFETY AND OCCUPATIONAL HEALTH)
OASA(I,L&E)

BEFORE THE
INSTALLATIONS AND FACILITIES SUBCOMMITTEE
AND
READINESS SUBCOMMITTEE
HOUSE NATIONAL SECURITY COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
FIRST SESSION, 104TH CONGRESS

REGARDING
THE ARMY ENVIRONMENTAL PROGRAM

MARCH 24, 1995

NOT FOR PUBLICATION
UNTIL RELEASED BY THE HOUSE
NATIONAL SECURITY COMMITTEE

Mr. Chairman and Members of the Subcommittee:

I am honored to appear before you and submit this written statement on the Army Environmental Program.

The Army continues to be committed to environmental stewardship. Our environmental program is an essential element of our mission to defend the Nation with forces of sufficient size and versatility to meet a wide range of threats. We are also the protectors of fundamental values shared by the American people and always strive to set a responsible example of good citizenship. The Army environmental program focuses on protecting people, natural and cultural resources, equipment, and facilities the American people entrust to us.

The Army's environmental program is unique among the services in that it has both military and civil responsibilities. My testimony today, however, will address only the military environmental programs.

The Army does not view the "environment" and "our mission" as an either/or proposition. Environmental quality is an integral part of Army operations. The Army's environmental program organization supports the DOD priorities of Readiness, Quality of Life, and Modernization.

The impact of environmental considerations on Army readiness is real. Maintaining our training areas, protecting wildlife habitat, cleaning up contaminated sites, and providing safe drinking water to our troops are all an integral part of our mission and essential to preserve the resources entrusted to the Army. As we continue to build-down and our base structure declines, additional pressure is placed on remaining land, air, and water resources necessary to support the maintenance of a trained and ready force. Tough, realistic training remains the cornerstone of readiness. In support of this requirement, rigorously managed use of the remaining land will provide the maneuver areas necessary to field a fully trained Army. Anticipating and planning for the effects of military activities upon the environment and the natural and cultural resources, will continue to be very important investments in the Army of the future. Effective training demands realistic, productive natural resources.

The success of our Army depends on the quality of our soldiers and civilian work force. Our soldiers continue to serve with distinction because they truly love the Army. Quality of life is one of the most important factors in a soldier's decision to reenlist in the Army. The Army is committed to improving the quality of life for our soldiers and their families. Every soldier and civilian is entitled to a safe and healthful workplace free of environmental hazards. Mentally and physically healthy soldiers are the backbone of a capable Army. While our soldiers are facing the many stresses that come with increased operational tempo (OPTEMPO) of overseas deployment and family separation, they must be assured that their family members are safe and their needs are met.

Modernization is one of the Army's greatest challenges as we move into the 21st Century. Most of the hazardous materials produced in our facilities results from the materiel acquisition process. The DOD Inspector General estimates that 80% of the hazardous waste is a result of weapon system production, maintenance, demilitarization, or disposal. Therefore, an equally important program for the future is substituting new and innovative technology for obsolete industrial equipment and processes that produce costly wastes. Industry learned a long time ago that reducing or preventing pollution makes good business sense.

ARMY ENVIRONMENTAL STRATEGY

On November 19, 1992, the Army Chief of Staff, General Gordon R. Sullivan, and then Secretary of the Army Michael P. W. Stone formally signed the "U. S. Army Environmental Strategy into the 21st Century." This comprehensive document articulates the Army's commitment to meet present and future environmental challenges. As stated by General Sullivan, "Our commitment to the environment is summed up in these words: "The Army will be a national leader in environmental and natural resource stewardship for present and future generations as an integral part of our mission." This comprehensive strategy governs all Army activities and provides a structure and framework to meet growing environmental challenges into the next century. It also defines the Army's leadership commitment and philosophy for meeting present and future challenges. This strategy is the basis for planning, programming, and budgeting decisions for the Army's environmental program.

The Army's environmental strategy depicts a model of a building with a foundation and four pillars supporting the total vision of environmental stewardship. The four pillars are: Pollution Prevention, Conservation, Compliance, and Restoration (Cleanup). The Army has established goals for each of these pillars. Our fifth major program area is Environmental Technology that is a common fiber tightly woven throughout the Army's entire environmental program.

Pollution Prevention--includes efforts to reduce or eliminate pollution at the source. The Army's goal is to prevent future pollution by reducing hazardous waste and toxic releases. We are vigorously pursuing state-of-the-art solutions to avoid future problems. Our goal is to significantly reduce waste and disposal costs by examining industrial processes, manufacturing techniques, and product design to minimize or eliminate the generation of hazardous waste. Workplace safety is enhanced. Occupational health of the workforce is protected. Wise pollution prevention practices enhance our overall mission readiness by reducing purchase quantities and inventories of stored hazardous materials and eventual hazardous waste generation and disposal.

Conservation--means we conserve and protect our natural and cultural resources. If we destroy training land and resources today, they will not be available to train America's soldiers for their missions in the 21st century. The Army is the steward for close to 12 million acres of public lands. We do not own this land; we are caretakers of the land and the plant and animal species that inhabit it. The American people entrust it to our care, and we shall fulfill their trust. We shall conserve and protect these resources for the future.

Compliance--gives immediate priority to sustained compliance with all applicable environmental laws. The Army goal is to ensure that all operations comply with applicable environmental requirements. Failure to meet regulations results in fines and penalties and can impact the readiness of our forces by restricting or prohibiting operations. Environmental compliance at an installation is an inherent command responsibility. Our installation commanders have an extremely difficult task in achieving compliance with a variety of Federal, State, local, and applicable host nation environmental laws and implementing regulations. We understand and apply the concept that pollution prevention is the highest form of compliance.

Restoration (Cleanup)--restores previously contaminated sites as quickly as funds permit, whether the site is still within the DOD inventory, i.e., an active and/or Base

Realignment and Closure (BRAC) site or a Formerly Used Defense Site (FUDS). Using the "worst -- first" concept to cleanup, the Army is working hard to ensure that the health and safety of people living in the communities near our installations, as well as that of installation employees and residents are protected.

Environmental Technology Program--focuses resources to achieve rapid prototype testing of new technologies in order to accomplish early field testing and regulatory certification to allow quick exploitation. The environmental technology program can reduce the "cost of doing business" and minimize the drain on our limited resources.

BUDGET

Our senior leadership's resolve is demonstrated by the commitment of significant resources to meet environmental responsibilities. I believe the budget request will allow us to maintain our efforts to comply with laws and regulations and exercise prudent environmental stewardship. We have capped the growth in environmental programs of the past few years and anticipate stable to slightly declining funding levels in the future. In Fiscal Year 1995, we plan to spend over \$1.760 billion for all Army Environmental Programs. Our Fiscal Year 1996 Budget submittal is down slightly to \$1.713 billion.

ACCOMPLISHMENTS and INITIATIVES

I am truly proud of the tremendous strides America's Army has made in all areas of environmental stewardship. I am pleased to highlight areas where our efforts are especially noteworthy and present some of the more notable ongoing or future initiatives.

First, the Army is working with DOD to establish Regional Executive Agents and Regional Environmental Coordinators for EPA Regions IV, V, VII, and VIII. These Regional Executive Agents and Regional Environmental Coordinators will represent DOD interests with respect to Federal, State, and local environmental laws and regulations. They will help coordinate a single DOD policy voice within a region so as to develop consistent methods for ensuring our cost effective compliance with environmental laws.

Second, the Army Environmental Policy Institute (AEPI) helps us manage today's issues, even as it explores and defines the range of plausible future issues and their matching policy options that are risk/cost effective. AEPI was established in late 1990 and has been sustained with the help of previous Congresses. Its first year major success was facilitating formation of the "Army Environmental Strategy into the 21st Century." AEPI is now in its permanent home, Atlanta, on the campuses of Georgia Institute of Technology and Clark Atlanta University. From there, it is prepared to lend further strength to Army long range strategic planning through combining the best of foresight techniques and information technology enhanced by partnering with the Nation's best expertise from industry, academia and other government agencies. It is charged to look and think ahead to develop cost-effective environmental policies and strategies to address environmental issues of significant importance to the Army. This approach is fully supportive of growing sentiment in both legislative and executive branches to anticipate and prevent problems, rather than deal with them after they mature. AEPI is tackling thorny issues: combat training land management options toward a 20 year future, depleted uranium management (including soldier awareness of critical concerns), new initiatives in conventional weapon demilitarization policy alternatives, risk management, performance measures for objectively assessing environmental efforts, and policy

prioritization. This fiscal year it initiated a process to update the "Army's Environmental Strategy into the 21st Century" to ensure parallel focus and continued consistency with National and DOD policies as they evolve. The Institute plays an increasingly important role in the Army Environmental Program and will play an additional role in all Army planning, as AEPI moves to full integration in Army strategic planning.

POLLUTION PREVENTION

Pollution prevention is the Army means to reduce environmental compliance and cleanup costs over time. Our focus is to prevent pollution before it is generated by changing the up front processes of acquisition, procurement, and operations. The public, private, and service sectors are equally embracing pollution prevention as the preferred strategy for environmental management. Regulators are promoting the concept as an integral part of compliance and waste minimization. The Army views pollution prevention as a best management practice that results in reduced life cycle costs, reduced liability and improved public image.

Pollution prevention is having a positive impact on readiness by reducing operating costs and enhancing quality of life. Our environmental managers are teamed with logisticians, industrial plant managers, and military leaders to reduce the use of hazardous materials and the generation of hazardous wastes. This further extends to our individual soldiers, civilians, and family members who actively support installation recycling programs.

The Army is seeing measurable signs of progress in pollution prevention. As the manager of the Army's industrial base, Army Materiel Command (AMC) conducts operations on the scale of a Fortune 500 company. AMC has more than 60 facilities around the country that do everything from manufacturing munitions to spray painting military aircraft and vehicles. AMC produces approximately 85 percent of the Army's hazardous waste, so it faces an enormous pollution prevention challenge. AMC has met the challenge by reducing industrial hazardous waste over 70 percent from 1985 to 1992. Using a 1993 inventory as a baseline, AMC further plans to reduce its use of hazardous waste another 25 percent by 1997. This goal will be primarily met by further modifying industrial processes and substituting less hazardous materials as a result of changing military specifications.

The Army currently has 176 installations with recycling programs. Twenty-one of these programs participate with their local communities and 49 also have hazardous materials recycling programs. The average annual proceeds from recycling activities approach \$15 million. Profits from the recycling program are spent at local installations on a variety of programs, many of which support quality of life programs.

A local recycling program at Tobyhanna Army Depot, Pennsylvania, significantly reduces the amount of solid waste sent to municipal landfills. In the past year, the Tobyhanna recycling program collected more than 11 million pounds of recycled material, achieving a recycling rate of 72 percent. The Tobyhanna program is credited with conserving an estimated 52,230 cubic yards of landfill space for the year.

We are not content with our success to date and cannot afford to lose our momentum. A new program the Army is developing is called the Centralized Army Tracking and Control of Hazardous Materiel (CATCHMAT). CATCHMAT encourages the central management of hazardous materials at the installation. Under CATCHMAT, Army environmental managers are partnering with logisticians to create an installation program with the goal to reduce the use

and waste of hazardous materiel through strict inventory control. Small supply activities are no longer allowed to procure and store hazardous materials. Installations develop an authorized users' list of the numerous hazardous materials and then centrally manage the hazardous materiel inventory and disposal or reuse of the hazardous materiel. Cost savings and cost avoidance's come from both reduced hazardous materiel purchases and a reduction in the amount of hazardous waste disposed. As an example, Corpus Christi Army Depot, Texas, instituted a hazardous materials management system and validated cost savings of \$690,000 in Fiscal Year 1994.

Further reduction will be significantly enhanced by new or modified technology. Our research and development programs are refocusing towards this end. I expect positive results from these effects in the mid-term. Until then, significant efforts are underway to educate and train the entire work force in the pollution prevention ethic. These individual contributions are expected to significantly accelerate our current programs.

Our pollution prevention budget request of \$97 million for Fiscal Year 1996 will continue our momentum toward our goal of minimizing the use of hazardous materials and the production of hazardous wastes. Additional resources will support elimination of ozone depleting chemicals, and review of military specifications to identify and replace hazardous materials.

CONSERVATION

The Army is reversing the misconception that we do not take good care of the environment on the installations and training lands we control. The Army puts tremendous emphasis on preserving the quality of its training lands and relies on scientifically tenable protocols to guide us in our land use and investment decisions. Commanders realize that conservation activities directly support Army training and readiness. A modest investment in conservation helps support OPTEMPO through natural resource management of DOD lands used for training.

Integrated Training Area Management (ITAM) Program is a scientifically based land management process that serves as the basis for decisions and enables the Army to carry out management practices that contribute to the long term availability of land to support the military mission and the conservation, rehabilitation and protection of the natural and cultural resources entrusted to our care. The ITAM Program integrates military training and other mission requirements with the condition of the land and its ability to support mission requirements. ITAM is used at more than 50 installations. During Fiscal Year 1994, ITAM proponentcy was passed from the environmental managers to those charged with Operations and Plans. With ITAM at their disposal, users now have the tools to sustain the training lands so critical to realistic and effective training. Use of ITAM permits the consideration of the mission and the land's ability to support training. Proper land management ensures the availability of land for continued intensive training, and avoids undue and irreparable damage to the environment. We have developed a method to rank our installations based on their relative criticality to the Army mission and the potential for environmental degradation; the relative rankings determine allocation of funds. Our goal is to establish ITAM systematically Army-wide.

The Army has developed and issued an Endangered Species Management Strategy and Action Plan. This plan includes policy guidance for complying with the Endangered Species

Act. This guidance will help improve the decision making process used by our installations in their efforts to manage threatened and endangered species and reduce the conflicts with our military operations.

We use the Legacy Program as a critical supplement to the Army's Conservation Program. The Legacy Resource Management Program was created by Congress in Fiscal Year 1991 to enhance the stewardship of natural and cultural resources on DOD land. A primary goal is to improve the knowledge base and decision making methodology concerning irreplaceable biological, cultural, and geophysical resources. This enhances our ability to integrate conservation efforts with the military training mission. High priority is given to inventorying, protecting, and restoring unique resources and establishing management approaches that will serve us in the future. Partnerships with Federal, State, and local agencies, and private groups are established to take advantage of their expertise and encourage public participation. Legacy projects, to date, include 419 natural resource projects, 289 cultural resource projects, and 56 integrated projects. Legacy funding has allowed the Army to go beyond compliance and advance its knowledge and ability to conserve, protect, restore, manage, and wisely use sensitive biological and cultural resources.

The Army executed several active interagency cooperative agreements with other Federal agencies designed to foster improved coordination concerning the management of sensitive natural and cultural resources on our installations. These include a memorandum of agreement with the Fish and Wildlife Service for wetland's inventory and mapping. The Army, as a partner with DOD and the other services, has joined with 600 other participants in Neotropical Migratory Bird (Partners in Flight) agreement. We participate with the Department of Defense and the Fish and Wildlife Service on the North American Waterfowl Management Plan. These memorandums of agreement, among others, optimize use of limited or resources and improve relationships with land managers and regulators.

The Fiscal Year 1996 budget request of \$65 million for conservation programs will continue fielding of ITAM, preserve the quality of land resources, and comply with regulatory requirements to protect endangered species and other natural and cultural resources. Protection of these resources is vital if soldiers are to continue to have access to quality ranges for realistic training.

COMPLIANCE

The Environmental Compliance Assessment System (ECAS) remains a keystone of our compliance program. Army installations across the United States and overseas are using this standardized system to evaluate their compliance with numerous Federal, State, local, and applicable host nation environmental laws and regulations. The ECAS process helps installation commanders identify problems, select corrective actions and program required resources. Army environmental staffs are finding that the ECAS is a valuable tool for pinpointing problem areas and then shaping a sound compliance program. This not only leads to better environmental stewardship but also improves unit readiness and installation quality of life by minimizing health threats and the amount of funds diverted to pay fines and penalties resulting from environmental noncompliance. I am a firm believer that the ECAS process provides a secondary benefit of increased environmental awareness to Major Army Commands and installation staffs. Assessments completed this last year include 82 at Active installations (32 CONUS and 50 OCONUS), 277 at Reserve facilities, and 11 States for the Army National

Guard. Beginning with the second round of assessments in Fiscal Year 1995, the program is being further streamlined to improve the report preparation process, to better track the corrective actions, and to give Major Army Commands' more oversight of the process. The Fiscal Year 1996 budget request will continue to support a similar level of effort as that for previous years.

Despite our commitment to environmental excellence, the Army continues to experience degrees of non-compliance and challenges in environmental management. The majority of our Enforcement Actions (ENFs) are operational or administrative in nature. Over one third of the ENFs issued to Army installations are due to violations of the Resource Conservation and Recovery Act (RCRA). RCRA regulates management, transport and disposal of solid and hazardous waste, and the management of underground storage tanks. Over 92% of the ENF findings issued under hazardous waste regulations required only an administrative or procedural correction (versus a construction project). Army efforts to help installation commanders determine the size of the environmental staff, they need and also our efforts to improve and expand training should help reduce these findings. During Fiscal Year 1994, there were 269 ENFs, about a 9% increase over Fiscal Year 1993. While ENFs over the past few years remain relatively constant, the amounts of fines and penalties assessed has increased since the passing of the Federal Facility Compliance Act. Through February 1995, a total of \$10.12 million in fines and penalties has been assessed against the Army.

The Army's Environmental Hotline is a comprehensive source of environmental information. It is available to DA employees worldwide: soldier or civilian, active or reserve component, as well as residents of family housing. The Hotline provides up-to-date information on our environmental programs. An experienced technical staff, knowledgeable in environmental regulations and requirements, operates the Hotline Center.

The goal of the Installation Status Report, Part II (Environment) is to capture the macro-level status of the environmental program at Army installations to improve the justification and prioritization of limited resources. The objective is to develop a Commander's decision support system or tool that summarizes his installation environmental conditions and compliance status. This decision support system is based on established Army-wide standards that measures program performance, environmental condition, mission impact, and compliance status. During Fiscal Year 1994, Part II (Environment) was field tested at 25 installations. At the request of General Sullivan, Part II (Environment) was refined to provide a rating assessment. Field testing of the revised Part II (Environment) is ongoing at 22 installations. Final decision for implementation in the United States will be made in June 1995.

The Army must comply with environmental laws passed by Congress and the implementing regulations created by the Federal, State, and local environmental regulatory agencies. The Fiscal Year 96 budget request of \$648 million will correct existing deficiencies and make improvements to meet newer, tougher standards to avoid more ENFs.

RESTORATION (CLEANUP)

Our Defense Environmental Restoration Program (DERP) and BRAC programs continue to produce positive results. Using the "relative risk" approach to cleanup at Army installations, the Army has worked diligently to ensure that the health and safety of people living in the communities near our installations, as well as of our installation personnel, are

protected. In Fiscal Year 1994, the Army obligated over 50% of the Defense Environmental Restoration Account (DERA) funds to actual site cleanup, indicating we are moving out of the study phase. Our program goal for Fiscal Year 1996 is an ambitious 60% being spent on actual cleanup. We have identified 10,297 potentially contaminated sites to screen at 1,090 installations. Preliminary Assessments (PA) on 10,186 of those sites have been completed; 6337 require no further action. Final remedial actions are complete at 268 sites, and 563 interim remedial actions have been completed at 412 sites. Actions are planned or underway for the remainder of the sites.

The Army share of the DERP budget for Fiscal Year 1995 is \$473 million. The Fiscal Year 1996 request includes \$450 million for Army installations. Significant cleanup activities in Fiscal Year 1994 involved Records of Decision (RODs) being signed for Milan Army Ammunition Plant and Cornhusker Army Ammunition Plant. At Rocky Mountain Arsenal, considerable cleanup has been accomplished including the incineration of 9 million gallons of highly contaminated fluid out of a total 10.5 million gallons. Contaminated fluid destruction will be completed in May 1995.

The Army has 38 installations and 53 family housing areas identified under BRAC I, BRAC 91, and BRAC 93 scheduled for closing and property transfer under the Base Realignment and Closure laws. For the 20 BRAC installations where property transfer to a local community is envisioned, the Army has designated full-time BRAC Environmental Coordinators (BEC), developed BRAC environmental cleanup plans and has established Restoration Advisory Boards to facilitate public involvement and input. Fast Track Cleanup points of contact have been designated for all remaining properties to address environmental cleanup concerns and to coordinate property transfer and reuse issues. BRAC Cleanup Teams have been established. Dedicated BRAC Environmental Coordinators are developing and implementing the BRAC Cleanup Plan, and Restoration Advisory Boards have been established.

The Army evaluated areas under the requirements of the Community Environmental Response Facilitation Act. That process identified 141,057 acres of land available for transfers as uncontaminated. We have transferred approximately 14,807 acres and 10,080 acres are under lease. We have completed 7 BRAC 1 cleanups and have 8 cleanups underway; 3 BRAC 91 cleanups are underway; and all BRAC 93 work is in the study phase. Thirty installations have excess property available for community reuse. Local reuse authorities completed Reuse Plans at 10 installations and have 8 more Plans underway. Actions at 12 installations are not planned or uncertain.

The Army is executive agent for the DERA funded Formerly Used Defense Sites (FUDS) Program. Approximately 8,350 formerly used properties, with potential for inclusion in the program, have been identified. Preliminary Assessments on 6,650 of those sites have been completed. About 4,500 properties require no additional action; 2,150 properties have been determined to need remediation; 274 remedial actions are completed; and actions are underway or planned for the remaining sites.

Major highlights of the FUDS Fiscal Year 1994-1995 program include contaminated sludge removal projects at the former Atlas Missile Site, Forbes Air Force Base, Kansas and the former Richards-Gebaur Air Force Base, Missouri. Further, through use of the Defense-State Memorandum of Agreement (DSMOA) program, the Chicago District Corps of Engineers entered into a Partnership Agreement with the State of Illinois to expedite project

reviews and aid in resolution of disputes. This partnership has resulted in faster cleanups and the creation of an atmosphere of trust between the Army and the Illinois Department of Environmental Protection. Additionally, a major ordnance removal project was completed at the former Morgan General Ordnance Depot, Sayerville, New Jersey. The chemical ordnance and removal project at Spring Valley and the American University in Washington, DC will be completed in 1995. The FUDS program in Fiscal Year 1995 is \$330 million and the Fiscal Year 1996 request is \$252 million. We completed negotiations to allow the future landowner at Hamilton Air Force Base to manage the cleanup of a contaminated landfill. We anticipate this innovative approach to environmental contamination cleanup will save \$2 million and will accelerate cleanup two years over conventional remediation contracting procedures.

On the Rocky Mountain Arsenal cleanup, we hope to complete a comprehensive Record of Decision later this year. Such a decision is in the process of being negotiated with the State of Colorado, Shell Oil Company, the Environmental Protection Agency, and the Department of Interior, which assumed land management responsibilities at the Arsenal.

Our cleanup activities are funded in the DERA and Base Closure Account (BCA). The Department has stabilized funding for DERA. To balance cleanup with other Defense missions, we have scaled back DERA to minimum levels necessary to continue progress in eliminating health and environment risks, and restore property to useful conditions.

The Army is seriously concerned over proposed Congressional decrements in our Fiscal Year 1995 active sites and FUDS programs. If enacted, the program decrements will, in concert with previous Congressional funding reductions, essentially reverse over a decade of progress, threaten to undermine the atmosphere of trust painstakingly developed over the years between the Army and the regulatory community, and create a major credibility gap between public expectations and our ability to deliver on promised cleanups. Further, Congressional decrements in the Fiscal Year 1995 program will not eliminate our cleanup requirements but will simply defer them.

Such deferrals would, in essence, create a bow-wave of unfunded cleanup requirements that would have to compete for cleanup funding with projects which are the subject of our Fiscal Year 1996 budget request and out-year cleanup programs.

We believe the timing on Congressional funding decrements is particularly alarming because they threaten to reverse one of the most positive trends in our cleanup programs. In Fiscal Year 1994, we turned the corner by accomplishing more actual contamination cleanup as opposed to studies. This trend is continued in Fiscal Year 1995 but is placed in jeopardy by the proposed decrements. At most of our high priority sites, we are committed by Federal Facility Agreements to complete contamination assessments and studies. Consequently, the actual percentage of cleanups will decrease and percentage of studies will increase with program funding cuts. In other words, more cleanups will be deferred because the studies that determine the type and level of remediation required have not been completed.

We further believe, that many regulatory agencies will view Congressional cleanup program cuts as a retreat from Army commitments both verbal and as embodied in formal agreements. At most Army installations and at FUDS sites, relationships have been carefully developed over time between the regulatory agencies as well as public participation groups. Much of this effort will be lost as the regulatory agencies resort to enforcement techniques such as fines and penalties to achieve the desired results from the Army. Public groups will be

increasingly disillusioned by the lack of progress and perceived lack of commitment and may well call for increased earmarkings to force the Army to honor its commitments.

Lastly, less funding results in fewer and slower cleanups. Although the Army will take action to address all immediate threats to human health and the environment, reduced funding stretches out the life of the cleanup program. This means that environmental contaminants will likely remain as threats to drinking water supplies longer, beneficial reuses of land will likely be delayed, and human and environmental exposure to contaminants will likely increase harmful risks to the American public and environment. The Army needs strong Congressional support to eliminate the proposed Fiscal Year 1995 cleanup program decrements and fully support our Fiscal Year 1996 budget requests.

ENVIRONMENTAL TECHNOLOGY

The Environmental Technology Program vision is to provide exceptional products in a timely manner for the Army's Environmental Program through a partnership between users and the technology community. The Army is moving forward to provide an appropriate mix of near, mid, and far term innovative environmental technologies for solving our unique environmental requirements. Our goal is quite simple -- use our environmental technology program to reduce the cost of environmental compliance and cleanup, making more funds available for readiness, quality of life initiatives, and modernization.

The Army's environmental technology program is a key foundation element tightly woven into the four environmental pillars or mission areas. We implemented a user requirements process, which ensures a user-driven technology program, in Fiscal Year 1994. This ensures that the technology program focuses on high priority thrust areas.

I have several examples of our recent technology accomplishments or success stories. The Army is currently testing technologies for detecting and removing unexploded ordnance from ranges and proving grounds. A demonstration project at Jefferson Proving Ground, Indiana, is helping the Army find better technologies for tackling this cleanup challenge. A change in industrial process equipment at Red River Army Depot, Texas, reduced the use of 1,1,1 trichloroethane by 4,000 gallons annually and eliminated 26,000 pounds of waste rubber contaminated with chlorinated solvents. In addition, this operational change reduced energy consumption, major pollutant emissions, lost time accidents and product cost. At Corpus Christi Army Depot, Texas, advanced technology provides an environmentally safe alternative for cadmium plating. Although the capital cost was \$848,000, the savings are estimated to be \$1.1 million per year.

The Army is requesting \$33 million for our environmental technology programs in Fiscal Year 1996 to develop smart environmental technologies to reduce current environmental costs and prevent future liabilities.

CONCLUSION

We need to be successful at performing our responsibilities in all aspects of our environmental stewardship to avoid problems in the future. Our Fiscal Year 1996 program provides the necessary tools for us to maintain our programs.

I will close by praising the many soldiers and civilians directly involved in the Army's environmental program. They are dedicated and strive to do the best job possible under some

formidable circumstances. We are doing our best to train and retain our environmental professionals. Above all, we must remember that people make our programs a success.

The environmental goal of America's Army is clear. The mission is understood. The environmental ethic is ingrained into everything we do. Environmental stewardship, both here and overseas, is our responsibility, our legacy, and our future.

Mr. BATEMAN. Very good.

Secretary Kandaras.

Ms. KANDARAS. As with the Navy. Thank you.

[The statement of Ms. Kandaras follows:]

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE NATIONAL
SECURITY COMMITTEE

STATEMENT OF
CHERYL A. KANDARAS
PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND ENVIRONMENT)
BEFORE THE
SUBCOMMITTEE ON MILITARY INSTALLATIONS AND FACILITIES
AND THE
SUBCOMMITTEE ON READINESS
OF THE
HOUSE NATIONAL SECURITY COMMITTEE
ON
ENVIRONMENTAL PROGRAMS

MARCH 24, 1995

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE NATIONAL
SECURITY COMMITTEE

Mr. Chairman and distinguished members of the Committee, I am Cheryl A. Kandaras, Principal Deputy Assistant Secretary of the Navy in the Office of the Assistant Secretary of the Navy (Installations and Environment). I am pleased to appear before you today to talk about the Department of the Navy's environmental program.

My statement today covers three broad areas:

- o a brief review of why the environmental program is an important and integral part of our national defense mission;
- o an overview of our FY-96/97 budget request, and a description of the funding changes from the current FY-95 program;
- o a more detailed discussion of specific aspects of our environmental program.

Throughout this statement, I hope to show you how we are using environmental funds to support the Department of the Navy's central mission: providing our Nation with potent, combat-credible naval expeditionary forces ready to fight and prevail at key forward-deployed regions around the world.

WHY AN ENVIRONMENTAL PROGRAM

Sometimes it's important to reflect upon why we invest in certain programs. Like most large corporations, we invest in an environmental program for a number of reasons. We believe that our environmental program is an integral part of our central deterrence and war fighting mission, that it satisfies our legal obligations, and that it sustains our civic role to protect the Nation's future health and welfare.

We recognize that restraints on our access to the oceans of the world or to shore based training areas due to a breach of

environmental standards would have a profound, immediate, and serious impact on our military readiness. Our failure to meet an environmental standard can halt a training exercise, an integral part of unit readiness. That is why we take the steps necessary to ensure that our operations on land, at sea, or in the air comply with all applicable environmental laws and why we promote environmental objectives in tandem with naval operations.

We have also found that our environmental investments in compliance and pollution prevention programs can actually increase readiness by improving our maintenance processes. I will later describe examples of environmental investments that shortened maintenance cycles, reduced costs, improved reliability, and reduced air emissions or the amount of hazardous waste generated. They can also improve quality-of-life in the workplace by reducing the exposure of our civilian and military members to hazardous material.

Like the environmental programs of corporate America, ours mirror the greater attention environmental issues have had at the national, state, and local levels over the past two decades. Congress has enacted over 40 environmental laws since 1970 that impact private industry and the Department of the Navy. These laws are substantially amended and tightened during reauthorization. Further, each state enacts its own environmental statutes and implementing regulations. This legislative growth has created an increasing need for people, and for projects, to meet the new standards. The result for both private industry and the Navy has been a need to change the way we do business, and to make significant new investments to meet tighter environmental standards. Failure to comply with environmental statutes and regulations can result in fines,

penalties, criminal and civil suits, administrative proceedings, court orders, cease and desist orders against the Department of the Navy, or some of our people. In short, environmental compliance is the law of the land and of the sea, and we must obey.

Beyond the strict interpretation of the law, I also believe we have an ethical responsibility to protect the natural resources entrusted to us. We must ensure that future generations inherit a healthy ecosystem that can sustain development.

However, there are important issues that must be faced as we adjust to the post-cold war era. Since 1991, our overall budget has been cut by nearly one-fourth; we have decommissioned almost one-third of our ships; we are implementing three rounds of base closure and realignments; and the Secretary of Defense has just announced recommendations for round four. Our environmental program, however, has more than doubled during this same period.

Although this growth attests to our efforts to characterize and comply with all legal environmental standards, I can assure the Committee that the Department of the Navy is looking for ways to control costs. We strongly support the need to balance environmental costs and benefits, and to use risk management to help prioritize investments. Working with the Deputy Under Secretary of Defense (Environmental Security), the military components, and other stakeholders such as regulators, industry representatives, environmentalists, and community groups, we have been developing just such an approach for the restoration program and are applying it to the compliance area.

ENVIRONMENTAL BUDGET

The elements of the Department of the Navy FY-96/97 environmental budget include funding for cleanup of past contamination, compliance with current environmental standards, conservation of our natural and cultural resources, investments in pollution prevention and technology development. It also includes environmental programs for base

DEPARTMENT OF THE NAVY
FY-96/97 ENVIRONMENTAL BUDGET

PROGRAM	FY-94	FY-95	FY-96	FY-97
CLEANUP	408	471	423	342
COMPLIANCE	718	772	919	908
CONSERVATION	9	14	19	23
POLLUTION PREVENTION	62	100	110	105
TECHNOLOGY	76	61	77	65
BRAC	302	278	225	184
TOTAL	1,575	1,696	1,773	1,627

realignment and

closure (BRAC) actions. Cleanup funds are included in the Defense Environmental Restoration Account (DERA). Compliance, conservation, pollution prevention, and environmental technology funds are included in the Department of the Navy appropriations. BRAC funds are offset from the Department of the Navy appropriations and aggregated into the Department of Defense BRAC budget request.

The environmental program benefits from several other sources of funds, including the Legacy Program; the Strategic Environmental Research and Development Program; and the Defense Environmental Security Technology Certification Program.

Revenues generated from agricultural leasing and timber harvesting support natural resource management programs on our bases. Recycling revenues from the sale of cans, bottles, and newsprint sustain recycling programs on our bases and reduce solid waste disposal costs, while recycling profits can fund recreational projects. Let me briefly explain some of the key factors driving changes in our FY-96 budget request.

- o Cleanup - the \$48 million decrease in FY-96 reflects implementation of stabilized funding for the Defense Environmental Restoration Account.
- o Compliance - the \$148 million net increase in FY-96 funds EPA Class I and Class II requirements at Navy and Marine Corps bases and is a combination of: a \$38 million increase for procurement and installation of plastic waste processors on surface combatants; a \$32 million increase in military construction, mostly in the area of wastewater treatment; a \$61 million increase in Operations and Maintenance Accounts for Clean Air Act requirements including air emission inventories, permits, and ozone depleting substance concerns; a \$41 million increase for Clean Water Act requirements including permit renewals and repairs to leaking wastewater collection systems in the Operations and Maintenance Accounts; and a \$48 million decrease in compliance requirements at industrial facilities in the Defense Business Operations Fund due to reduced workload and base closures.
- o Conservation - the \$5 million increase in FY-96 is due to additional wetland and endangered species studies and selected cultural preservation efforts under the National Historic Preservation Act.
- o Pollution Prevention - the \$10 million net increase in FY-96 is a combination of: a \$42 million increase in pollution prevention investments under Executive Order 12856, including ODS recycling, hazardous material/hazardous waste reductions efforts, solid waste reduction efforts, toxic release reduction efforts in the Operations and Maintenance Accounts; a decrease of \$5 million for procurement of pollution prevention equipment; and a \$25 million reduction in the Defense Business Operations Fund due to reduced workload and base closures.

- o Technology - the \$16 million increase in FY-96 is due to additional research in shipboard solid waste technologies.
- o Base Closure - the \$53 million decrease in FY-96 is due to completion of the National Environmental Policy Act (NEPA) studies; completion of asbestos abatement, Resource Conservation and Recovery Act (RCRA) hazardous waste storage facility closures, and underground storage tank closures; and fiscal constraints.

I will discuss many of these issues later in my statement.

To help our shore installations better recognize and develop budget estimates, the Navy prepared and distributed an environmental compliance "cookbook" to all its commands and major installations. The cookbook is a collection of common sense "recipes" for complying with specific aspects of environmental laws, along with cost estimates. For example, RCRA (and our own policy) requires activities that generate hazardous waste to have a hazardous waste minimization plan in place. Our "cookbook" listed this requirement, along with the compliance "recipe" of preparing a pollution prevention plan at an average cost of \$25,000 per activity that will lead to future savings. The "cookbook" gives us a better handle on compliance costs, and we hope it will preclude future notices of violation.

I will now discuss specific aspects of our program. Although I will talk about the cleanup, compliance, conservation, and pollution prevention programs individually, they are often mutually supportive. Our environmental technology program spans all four areas.

CLEANUP

The Installation Restoration Program, more commonly called

the cleanup program, is designed to discover, investigate, characterize, and clean up contaminated sites on Navy and Marine Corps installations. Two federal laws are the primary drivers: the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, as amended by the Superfund Amendments and

Reauthorization Act (SARA), and RCRA, which includes cleanup from leaking underground storage tanks (USTs). Since the Department of the Navy cleanup program

DEPARTMENT OF NAVY CLEANUP SITE STATUS

STATUS	DERA	BRAC	TOTAL
Closed sites	940	103	1,064
Active sites	2,280	760	3,040
(study underway)	(2,025)	(714)	(2,739)
(design underway)	(62)	(23)	(85)
(cleanup underway)	(141)	(16)	(157)
(future action)	(52)	(7)	(59)
Interim actions	130	17	147

began in 1980, we have examined nearly 300 Navy and Marine Corps installations and identified over 4,100 potentially contaminated sites at active and BRAC locations. Through preliminary studies and investigations or site remediation, we have been able to "close out" 1,064 of these sites. We have 2,280 active sites at non-closure bases, and 760 active sites at BRAC locations. The primary contaminants found on our installations are, in order: petroleum, oil and lubricants, solvents, heavy metals, and PCBs.

Funding for the cleanup program comes from DERA, the Defense Department's equivalent to the EPA "Superfund." Once authorized and appropriated, our share of DERA is transferred to the Department of the Navy appropriations and executed by the Naval Facilities Engineering Command and its Engineering Field

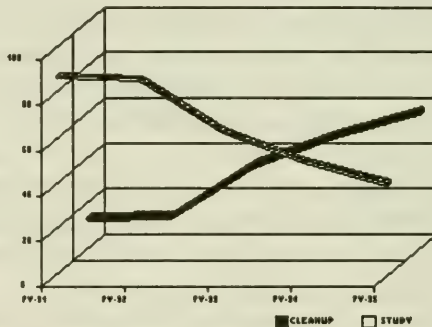
Divisions for both Navy and Marine Corps installations on U. S. territory.

I am especially proud of the performance of our cleanup program in the last year. We continue to execute larger portions of our DERA budget on actual "shovel in the ground" cleanups while limiting the amount of money spent for studies and management. We have accomplished this by early identification of cleanup opportunities, use of our Remedial Action Contracts, and the cooperation and support of regulators and the community.

That is not to say that we can do without studies, as some believe. Studies are an integral part of the cleanup effort, not just some paperwork shuffling. Just as a military commander must first conduct surveillance and reconnaissance of the enemy, then develop a detailed battle plan before marshalling attacking forces, we must first understand the types, locations, and severity of the contamination, as well as the geophysical characteristics of the site

before we can act to remove it. Thorough preliminary investigation can prevent unnecessary cleanup expenses if the

MORE CLEANUP, LESS STUDIES



analysis uncovers no evidence of contamination. We need to maintain a level of studies that will provide the analytic basis for future cleanup actions. Our FY-95 levels of 60 percent cleanup, 30 percent studies, and 10 percent management are about where we need to stay.

We have extended our partnering efforts to federal and state regulators. Partnering with regulators saves time and money by avoiding protracted volleys of letters back and forth. It allows us to focus on cooperative decision-making that is in the best interest of taxpayers. Most recently, we "re-invented" the way we do Federal Facilities Agreements (FFAs) at National Priority List sites. In partnership with EPA Regions and the states, we now have agreements that better reflect the dynamics of remediation efforts, and place decisions about scope and timing of actions in the hands of our project managers, not our attorneys. Our partnering efforts extend to the citizens around our bases as well. Our Restoration Advisory Boards (RABs), an outgrowth of fast track cleanup at closing bases, are jointly chaired by a Navy official and a citizen elected by the community. They are open forums for members of the local community to better understand the nature and severity of any contamination, and have a voice in the decision-making process.

New DERA Management Tools

As I stated earlier, we are playing close attention to cost. We have developed a number of new tools for analysis of our cleanup program: a site by site, i.e., "bottom up" cost estimate, a Five-Year Program Plan, and a relative risk management analysis of our entire program. The common denominator for all of these tools is the site, which we are

using for planning, programming, and budgeting purposes.

Our site-by-site cost estimate covers each of the 2,280 active sites in our program. We have long felt that the remedial project manager who manages the day-to-day cleanup decisions at an installation has the best grasp of what it would take to clean up the installation. Our cost estimate, which totals \$5.2 billion for all active Navy and Marine Corps sites, (excluding BRAC 88, 91 and 93 locations) is based on interviews with each remedial project manager as to the nature and extent of contamination. We then filtered these estimates through a modified Air Force cost model to standardize costs. The result is an estimated cost for each individual active site in our program, which we used to build our FY-96/97 budget request. We will continue to update our cost-to-complete data as new information becomes available.

We have also developed a Five-Year Cleanup Plan for active and BRAC installations. This document describes the status of cleanup at each of our installations, including BRAC locations. Most importantly, it serves as a road map, and a measurement tool, for what we want to accomplish at each individual site over the next five years.

Of course, our plans are contingent upon the availability of funding. These plans represent promises to the community to cleanup contamination. We invest hundreds of hours to organize the myriad of engineering and logistical aspects of each project. In contrast, I think you will agree that the DERA program has been on a financial roller coaster ride for the last several years - with the Department of Defense submitting larger budget requests arising from DoD and regulator desires to accelerate

cleanup, EPA adding military bases on the National Priorities List, and the Congress increasingly reluctant to fund it. Since FY-93, the annual DERA budget request has been cut by \$300 million, \$347 million, and \$400 million last

PROJECTED ACCOMPLISHMENTS
(Based on Current Funding)

DERA ACTIONS	FY-95	FY-96
Studies completed	472	406
Cleanups completed	157	156
Interim cleanups completed	152	68
Sites closed out	347	248

year. The FY-95 authorized and appropriated amount of \$1.78 billion for DERA was \$185 million below the FY-94 amount of \$1.96 billion. Even the FY-95 amount of \$1.78 billion is in jeopardy, as the House has approved a rescission of \$150 million, and the Senate a rescission of \$300 million of FY-95 DERA funds. A rescission of FY-95 funds will obviously reduce our projected accomplishments for this year and next.

"Re-inventing" Restoration

We need to "re-invent" management of the Installation Restoration Program. In the past, we submitted budgets based on regulatory orders or agreements we had negotiated and signed with federal and state regulators. In fact, this was the only way to secure DERA funding under DoD policy. Unfortunately, these agreements were not "resource constrained," and we had no real way to prioritize cleanup efforts for various sites on an installation, or across different installations. The agreements simply required us to ask Congress for the money. More signed agreements, greater regulator participation, and new bases added to the National Priorities List by EPA resulted in a larger DERA budget request. Funding to meet these requirements consumed a

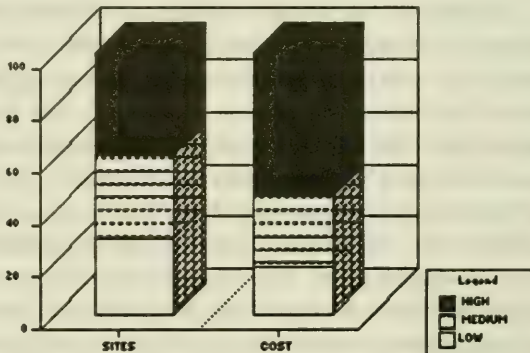
growing commitment of funds from a decreasing Department of Defense budget.

Unpredictable funding levels exacted a toll in the field, where remedial project managers and regulators had to revise work plans, deadlines and contract schedules that were now unachievable due to reduced funding levels. Time and effort has been wasted that certainly has not expedited cleanup. Clearly, a new approach was needed.

The Department of Defense has taken two important steps toward stabilizing environmental cleanup funding. First, the Secretary of Defense has set DERA funding at \$1.6 billion across the FYDP. We strongly support a stable funded DERA program that will allow us and the stakeholders to more realistically manage remedial project schedules and workload.

Second, the Department of Defense is moving forward to implement a new prioritization scheme based on relative risk management. This will not avoid cleanup of any contaminated sites. We fully recognize and

Relative Risk Summary



accept our legal responsibility, as well as our moral obligation as citizens, to do so. Since we cannot reasonably and financially do everything first, relative risk seeks to identify those sites that pose a greater health and safety risk for first action. We can then focus our energy and resources on these high-risk sites within known fiscal boundaries.

Relative risk considers the relationship between the contaminant(s), the pathway(s) that the contaminant may travel, and the receptor(s), i.e., human, animal and plant, that can be adversely affected. Risk management then combines analytic and subjective factors, along with input from regulators and the community, into a relative risk of "high," "medium," and "low." The Department of the Navy led a DoD effort to establish relative risk standards for use by all DoD components. I am pleased to say that we have a relative risk category for all of our non-BRAC sites.

It might be an attractive option for some to limit funding to only, say, high-risk sites. We must give preference to high-risk sites, but remain flexible within a stable funded program to do selected medium and even low-risk sites. For example, the marginal cost of having the remediation contractor take care of a low-risk site adjacent to a similarly contaminated high-risk site may make good business sense, rather than re-mobilizing the contractor years later. Failure to clean up a medium risk site in a timely manner could result in its moving to high-risk, causing more damage and costing more money to clean up. The bottom line is that we need the flexibility to package sites for remediation into projects that make both common sense and business sense.

I urge Congress to support the twin concepts of a stable funded cleanup program, and the use of risk management in assigning program priorities.

COMPLIANCE

The Compliance Program supports our efforts to meet existing environmental requirements for our current operations and industrial processes. The principal challenges here are under the Clean Water Act, which regulates wastewater treatment and other discharges into the water; the amended Clean Air Act; the Toxic Substances Control Act, which regulates the management and disposal of PCBs; and the hazardous and solid waste provisions of RCRA. Compliance programs are implemented by every major Navy and Marine Corps activity.

Much of our compliance budget consists of one-time Class I and Class II environmental projects to meet existing environmental standards. Class I projects are those required to meet a compliance deadline that has already passed; Class II projects are required to meet a specific future deadline. Our policy is to fund all Class I projects as soon as they can be accomplished, and to fund all Class II projects in time to meet the regulatory deadline.

Most of the Class I and Class II funding is in the Operation and Maintenance Accounts and the Defense Business Operations Fund. These accounts also support salaries and training for our environmental personnel, hazardous waste management and disposal costs, environmental permit, fees, and other routine costs.

I'd like to highlight a few specific compliance issues.

Shipboard Solid Waste Discharges

<p>The 1994 Defense Authorization Act amended the 1987 Act to Prevent Pollution from Ships, extending the compliance deadline for the discharge of plastic waste anywhere in the ocean, and the discharge of other solid waste (except food waste) in designated special areas. The new compliance schedules were arrived at after much negotiation with Congress and interested environmental groups.</p>	<table><tr><th data-bbox="412 215 934 401">SHIPBOARD SOLID WASTE DISCHARGES</th></tr><tr><td data-bbox="412 401 934 672"><ul style="list-style-type: none">o Navy submits compliance plan in 1996o No discharge of plastic by surface ships after 1998;o No discharge of non-food solid waste by surface ships in special areas after 2000;o No discharge of plastic or non-food solid waste by submarines in special areas after 2008.</td></tr></table>	SHIPBOARD SOLID WASTE DISCHARGES	<ul style="list-style-type: none">o Navy submits compliance plan in 1996o No discharge of plastic by surface ships after 1998;o No discharge of non-food solid waste by surface ships in special areas after 2000;o No discharge of plastic or non-food solid waste by submarines in special areas after 2008.
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The development of the plastic waste processor (PWP) is an excellent example of an environmental technology we developed because it was not commercially available. This device, to be installed on surface ships, will shred and melt plastic wasted into sanitized bricks for storage and recycling or disposal ashore. We have completed the independent operational evaluation (OPEVAL) of the PWP design during a six month deployment of the USS GEORGE WASHINGTON to the North Atlantic and Mediterranean seas. We released the PWP Request for Proposal on 29 September 1994, as required by the 1994 Defense Authorization Act. The Navy's Acquisition Review Board reviewed and approved Milestone III this January, allowing the PWP to proceed to production and deployment. Contract bids were opened on 25 January 1995, with contract award set by 1 July 1995. We expect to meet the Act's December 1998 deadline for installing PWPs. Incidentally, by modifying operational procedures and short stays in "in effect"

special areas, the Navy reported no discharges in the first annual report required by the Act.

Reducing the amount of plastics that are brought aboard ship is the objective of PRIME, our Plastics Reduction in the Marine Environment Program. We have reviewed 516,000 Navy managed line items in our supply system, which

will eliminate over 500,000 pounds of plastic entering the supply system annually. One good example is the substitution of a high strength, natural fiber, wiping towel in place of the plastic reinforced "scrim" towel previously used aboard ship. This, along with 100% paper cups, cellulose based twine, and other similar efforts has helped cut the amount of plastic aboard ships.

NEW WIPING TOWEL

Cellulose based wiping towel has no plastic, is 100% biodegradable, more absorbent, equal in strength, made of 100% recycled paper (25% post consumer waste), with fiber mesh designed not to entrap fish or animals, AND cost 50% less than scrim towel.

We have also been addressing the other solid waste (e.g., glass, metal cardboard) provisions of the Act, with particular regard to submitting a report to Congress by November 1996 on our ability to meet the "special area" restrictions for surface ships and submarines. As you know, the Act has provisions for Congress modifying the requirements "as appropriate" after reviewing the Navy plan.

Our approach has been to do a zero-based analysis of all procedures and technologies for shipboard solid waste management. This past May, the Under Secretary of the Navy established a Ships Solid Waste Executive Steering Committee to oversee the

analysis and preparation of the report to Congress. Ms. Elsie Munsell, the Deputy Assistant Secretary of the Navy (Environment and Safety) in my office chairs the Steering Committee.

To help us with our analysis, we have chartered two independent efforts: the National Academy of Sciences Naval Studies Board is reviewing both short and long-term technologies and the Center for Naval Analyses is studying the feasibility of onboard storage, retention, and transfer to shore options. We held a public meeting last September to solicit public and industry input.

At this point, no new, timely, cost-effective technological solution has emerged for non-plastic solid waste in "special areas." While our analysis is not yet complete, I can assure you that we intend to carefully balance costs, environmental benefits, practicality, and operational issues of the shipboard solid waste management problem in our report due to Congress in November 1996.

Clean Air Act

Compliance with the mandates of the Clean Air Act (CAA) presents perhaps our most formidable fiscal challenge for the future. The Department of the Navy is the lead Service for CAA implementation issues in the Department of Defense. A Navy study a few years ago estimated that the future costs for CAA compliance could reach \$2 billion.

The CAA amendments of 1990 requires the EPA to issue over 200 regulations in this decade. EPA and state regulators are only now issuing many of these regulations. Much of our expenditures

so far have been for air emission testing and analysis in support of emission permits. We are working closely with EPA and state regulators on these new regulations, e.g., the development of State Implementation Plans (SIP) and Federal Implementation Plans (FIP) in those locations designated as non-attainment areas. We want to make sure that the SIPs and FIPs properly reflect a balanced approach among military, industrial, commercial, and individual contributions toward a shared goal of improving regional air quality. For example, we will be conducting a joint study with EPA and local officials on air emission from naval and commercial ship traffic off the coast of Ventura County, California.

One way to cut air emissions is to use alternative fuel vehicles. We have more than 700 vehicles running on clean burning natural gas in San Diego and Ventura Counties in California, and in the District of Columbia. We are working with local gas utilities to provide the necessary "filling stations." We hope to convert another 1,100 vehicles to natural gas this year that will cut 264 tons of air emissions over the seven year life of the vehicles. It costs about \$5,000 to convert a vehicle to natural gas. The cost of conversion is balanced by fuel savings, mobile emission credits, and other factors.

Pollution Prevention

During the past year, we have continued to increase our focus on pollution prevention strategies. Money invested in this effort avoids extensive future cleanup problems and hazardous waste disposal costs. This paradigm shift, toward pollution prevention and away from traditional forms of "end-of-the-pipe" waste management and treatment, is a key to our environmental

compliance and cost control strategy. During the past year, we developed a detailed milestone plan for meeting the DoD pollution prevention strategy. This detailed plan spans the spectrum of Navy and Marine Corps activities, encourages individual commitment, and will become the primary means of achieving and maintaining compliance with all applicable federal, state, and local environmental regulations.

In addition to source reduction, we want to increase awareness of pollution prevention through educational initiatives, enhance the pollution prevention ethic of our work force, share evolving technology with other stakeholders, and foster consideration of prevention throughout the life cycle of weapon systems, equipment and facility designs. It will help sustain readiness by reducing treatment, handling, and disposal costs for hazardous materials. It will also improve quality-of-life in the workplace by reducing occupational hazards to our people.

Our hazardous waste generation data suggests that this is one area where we are making progress. The amount of hazardous waste generated during 1993, the latest year for which we have data, shows a significant drop of about 40 million pounds from the previous year. This reduction is due to such actions as the replacement of 1,1,1-Trichloroethane, Methylene Chloride, and other solvents with less hazardous or non-hazardous materials. Paint containing lead or chromium is another waste stream being eliminated by material substitution.

We developed a Pollution Prevention Planning Guide, and prototyped it at the Navy's two Navy Environmental Leadership Program (NELP) bases: Naval Station Mayport, Florida, and Naval

Air Station North Island, California. Both of these installations have volunteered to be showcases for environmental excellence. We will be distributing model pollution prevention plans to all bases next month, and have held a number of pollution prevention workshops across the country. All non-BRAC bases must develop installation specific pollution prevention plans by the end of this year.

To further support this effort, we have money in the budget to centrally procure and install pollution prevention equipment at our industrial facilities. The Naval Facilities Engineering Service Center will work with the major commands to identify their pollution prevention equipment needs. They will then buy, deliver, install, train operators, and provide the necessary logistical support for it.

Pollution prevention equipment helps military readiness because it saves money, cuts turnaround time for the maintenance cycle, improves maintenance reliability, and from an environmental perspective, cuts air emissions and hazardous waste disposal needs and costs.

POLLUTION PREVENTION INVESTMENTS

- o Aqueous parts washer functions like a high-pressure dishwasher. Eliminates ODS use, cuts water consumption by 87%. NADEP Jacksonville reports annual cost avoidance of \$453,000.
- o Laser particle counter tests hydraulic fluid for contaminants. Eliminates ODS use, improves accuracy, cuts turnaround time by 90%, saves \$200K/yr.
- o Hydraulic fluid purifiers filter out contaminants. Eliminates need to flush & clean hydraulic systems.
- o Unicoat paint replaces two-coat system. Cuts VOCs and HW by 67%, man hours by 50%, maintenance time by 50%.

You may recall my discussion of CHRIMP, the Navy's

Consolidated Hazardous Material Reutilization and Inventory Management Program during this Committee's environmental hearing last year. CHRIMP provides centralized life cycle control and management of all hazardous material (HM) and hazardous waste (HW). It establishes a chain of authorized ownership for each use of HM from the time it is procured to the time it is used or disposed. CHRIMP has cut HM procurement by virtually eliminating each unit's own supply locker of HM. Our Naval Supply Systems Command has been instrumental in propagating CHRIMP ashore and afloat with intensive training for fleet personnel, and centralized procurement and distribution of computer hardware and software. They have established HM Minimization Centers at the 10 Fleet and Industrial Supply Centers to coordinate regional CHRIMP efforts. So far, we have initiated CHRIMP at 73 shore activities and 140 ships, and will phase in the rest in the next few years. The Marine Corps is implementing the CHRIMP philosophy through improved hazardous material management and control practices.

In addition to CHRIMP, we are developing an afloat pollution prevention program. Fleet commanders have nominated ships to serve as test platforms. We hope to identify promising technologies and management options for fleet wide use in the future.

Shipboard Effluent Discharges

All ships produce effluent discharges subject to regulation under the Clean Water Act as part of normal ship operations: blackwater (sewage), greywater (wastewater from galley sinks, showers), bilge water, boiler blowdowns, water runoff from the ship's deck, and some leachate from hull biocide coatings.

Approximately 88 percent of our ships have oil/water separators to treat bilge water to international standards, and about 65 percent have oil content monitors to ensure that bilge water discharges meet the standards. All our ships have Collection, Holding and Transfer (CHT) systems that allow ships to transit coastal zones without releasing sewage, as required by the Clean Water Act. All but a few ships can use the CHTs to collect and hold greywater while in port. All Navy port facilities have provisions for unloading CHTs while the ship is at the pier. We will modify ships unable to collect greywater when they are scheduled for shipyard maintenance in the next few years.

For a number of years, we have pursued a legislative change to the Clean Water Act to permit the establishment of uniform national discharge standards for discharges incidental to the normal operation of a ship. Such standards would yield considerable benefits. National standards could be set at levels that are technically challenging but still achievable, considering both the cost of implementation and its environmental effectiveness. Standards would be set for some discharges not currently regulated. Once established, states would have enforcement authority. National standards would allow the Navy to plan and design specific control devices or techniques for its current fleet and for future ship designs. Discharges found to be environmentally insignificant would be exempted from further federal or state regulation.

We have held meetings with EPA and interested environmental organizations, individuals, and congressional staff to further develop this concept. Last year, the President submitted a Uniform National Discharge Standards Proposal as part of the

Administration's position on the Clean Water Act Reauthorization. Uniform national standards are a win-win situation for all parties and the environment. We stand ready to pursue this initiative in either the Clean Water Act Reauthorization or other legislation this year.

OZONE DEPLETING SUBSTANCES (ODS)

We continue to curtail the use of ODS in our weapon systems and shore facilities; it is quite a challenge. ODSs are used for jamming pods, radars, engine nacelles, aircraft fuel tanks, weapon systems, fire suppression, refrigeration, electronic cleaning, solvents, and air conditioning systems. ODSs include CFC-11, -12, -113, -114, Halon 1211, 1301, and methyl chloroform. Our environmental technology researchers have joined with EPA and chemical manufacturers since 1989 to identify, test, and qualify non-ozone depleting alternatives.

In 1993, we began a fleet-wide program to convert shipboard CFC-12 to HFC-134a, a non-ozone depleting substance. The USS DEWERT (FFG-45) was the first Navy ship to be "CFC-free" for shipboard air conditioning and refrigeration (AC&R). So far, 10 ships are CFC-Free and 90 AC&R plants have been converted to HFC-134a. DDG-51 Flight IIA, LPD-17, the USS RONALD REAGAN (CVN-76) will all have HFC-134a AC&R plants. The CFC-12 Shipboard Conversion Program extends to the year 2001, when all plants will be converted or retired. Our researchers continue testing substitutes for CFC-114 systems used on surface ships and submarines, and air conditioning systems on military aircraft.

Halons are used in fire protection and explosion suppression systems on ships and aircraft. Despite significant mutual

research with industry, we have not found a "drop-in" replacement. We are adding more space and weight in our new ship and aircraft designs to accommodate halon alternatives.

We substituted a test gas for shipboard Halon 1301 systems in 1989 that cut Halon 1301 procurement by 60 percent. Our Halon 1211 recovery system reduces annual emissions by 35%. Over 380 of these systems have been delivered to U. S. military bases worldwide under the Navy's contract. We have also distributed over 1,000 CFC-12/HCFC-22 recovery systems to Navy and Marine Corps activities, and are buying CFC-11 and CFC-114 recovery systems for use on Navy ships.

We are also reducing the amount of CFCs used as solvents for industrial cleaning. In the 1980's we were using over a million pounds per year of CFC-113. Thanks to our environmental technology efforts, it is now down to 70,000 pounds, and in a few years, we expect to reduce that to zero.

Even with the success of our environmental technology program and recovery/conservation measures, continued use of certain ODSs for mission critical applications must continue beyond production phaseout dates. We must put the safety of our people, particularly those in combat situations, first. The Defense Logistics Agency will manage the Department of Defense ODS reserve for mission critical operations.

Environmental Considerations in the Acquisition Process

We must plan now for future compliance. While most of our funding is devoted to cleanup of past contamination and compliance with current environmental standards, we can save

significant time, money, and future effort if we factor-in environmental considerations now for the weapon systems and platforms of the future.

Ms. Nora Slatkin, the Assistant Secretary of the Navy (Research, Development and Acquisition) and her staff have helped instill within the acquisition community the need to consider life cycle environmental factors. The Navy's Acquisition Review Board considers the potential for environmental impacts, proposed mitigation measures, and pollution prevention efforts at each milestone review before proceeding to the next phase of the acquisition. Ms. Slatkin is now responsible for all systems-related NEPA documents as well as ensuring compliance with all environmental laws, regulations and executive orders in Navy acquisitions.

Two major acquisition programs are well on their way to applying this approach. The New Attack Submarine program manager has a well documented pollution prevention plan to ensure that this weapon platform of the future meets all applicable environmental requirements with minimal impact on readiness, cost, and schedule. They are evaluating 90 different adhesives, 55 oils and lubricants, 35 solvents, 4 refrigerants, 41 welding electrodes, and 104 paints used in submarine construction and maintenance to minimize use of hazardous materials. They are reviewing the design of standard parts, components, and materials to see if less hazardous materials or maintenance practices can be used. They plan to use recycled lead ballast and chromated water from decommissioned submarines.

Similarly, the Marine Corps' Advanced Amphibious Assault Vehicle (AAAV) program is making a cradle-to-grave assessment of

the full range of environmental impacts on this armored, tracked amphibious combat vehicle to be fielded in the year 2005. They have reviewed environmental issues on three related weapon systems: the current AAV7A1, the Army's Bradley Fighting Vehicle, and the Army's Abrams M1A1 Main Battle Tank. They will rely on lethality simulations at the Army's Ballistic Research Laboratory to minimize the cost and environmental considerations of doing actual firings. They are evaluating alternative design and production techniques, as well as scheduled, intermediate and depot maintenance needs to reduce or eliminate hazardous materials and volatile organic compounds. The AAV will be a CFC-free weapon platform.

Do we have everything in hand? Frankly, no. One need only review the events that surrounded what we considered to be a routine shock trial test on a ship, the USS JOHN PAUL JONES, DDG 53, last year. In response to a suit by environmental groups concerned about the test's effects on marine life, a federal court enjoined the shock trial. The two-plus month delay cost the Navy approximately \$5 million, interfered with the ship's availability schedule, and resulted in a smaller scale test. Here is another example of where we must "re-invent" our approach to environmental issues. At the request of the Under Secretary of the Navy, the senior leadership of the Department of the Navy is reviewing how we can better integrate and document environmental concerns into the decision-making process in acquisition, facilities construction, and operational actions.

Conservation

We are particularly sensitive about protecting the natural and cultural resources on our bases. We want to comply with the letter and the spirit of all major conservation statutes, like the Endangered Species Act, the Marine Mammal Protection Act, the Migratory Bird Treaty Act, the National Historic Preservation Act, the Sikes Act, and the Archaeological Resource Protection Act.

The Department of the Navy is the steward for 3.5 million acres of ecologically sensitive land in the United States. Our installations participate with private, state, and federal conservation organizations to advance mutual goals. Our natural resources professionals, many of whom are funded from agricultural outleasing and forestry revenues, routinely work with state and federal conservation agencies to coordinate efforts in forest management, cultural resources management, soil and water conservation, fish and wildlife management, and outdoor recreation opportunities for our sailors, marines, and their neighbors in the community.

While we have a legal and ethical obligation to conserve the natural resources entrusted to us by the American people, we also have a military objective to ensure continued access to these resources. Many of the operational actions we take to train new sailors or marines, maintain readiness of combat forces, or even test new weapon systems have an impact on the natural and cultural environment. We need to understand the characteristics of the natural resources on our bases and major training areas so that we can minimize adverse impacts and comply with all statutory and regulatory standards. Installations with

significant natural resources prepare integrated natural resource management plans that aim to strike this balance. Our goal is to make every acre support our national defense mission, while still taking the protective measures that the law requires.

There are numerous examples of where we have successfully balanced military mission needs and conservation concerns. When we "get it right," our conservation actions support military readiness:

- o Marine Corps Air Station Yuma, Arizona worked with representatives of Luke Air Force Base and the U. S. Fish and Wildlife Service to consolidate 11 low-level flight corridors in airspace above the Cabeza Prieta National Wildlife Refuge into three corridors with no impact on mission. As a result, realistic training was maintained and environmental impacts were reduced.
- o Marine Corps Base Camp Pendleton, California has not only preserved habitat for the Least Bell's Vireo, an endangered species, and the Western Snowy Plover, a "threatened" species, but fostered a 200 percent increase in the population of the vireo on the base. By scheduling amphibious assault training exercises around mating season, and identifying habitat on the base as "mine fields," the Marines have enhanced the population of the two birds and avoided the burden of having a major portion of Camp Pendleton identified as critical habitat by the Fish & Wildlife Service of the Department of the Interior.
- o The Navy has been participating in the Northern Right Whale recovery plan off the Georgia and Florida coasts since 1992. We fund one third of the cost of aerial overflights over calving areas to alert ships on the location of the whales. Naval Submarine Base Kings Bay and the Naval Station Mayport train harbor pilots and ship captains on how to identify and avoid right whales. Navy vessels traversing the right whale's critical habitat maintain whale lookouts. In December 1994, the Southeastern U. S. Implementation Team for the Recovery of the Northern Right Whale gave a Certificate of Appreciation to Naval Base, Jacksonville for its efforts to protect whales.

When we "don't get it right," there is invariably an immediate and potentially dramatic impact on readiness. I have already mentioned the DDG 53 shock trial. On the horizon are other issues concerning marine sanctuaries. We must ensure that vital military interests are also "protected" as part of the marine sanctuaries. Sanctuaries, both those already established and those that have been proposed, now ring our coasts and include many areas that the Navy has used for decades for operations, training and systems development. Sanctuaries have been designated in the past few years in Hawaii, the Florida Keys and off Washington's Olympic Peninsula. Additional sanctuaries are proposed near fleet concentrations in Puget Sound and Norfolk. With the emphasis on littoral warfare, sanctuaries may contain the only available geographic and bathymetric conditions that permit effective training or safe testing of our systems. We are working with federal and state regulators and other interested parties to ensure that sanctuaries do not impair the ability of the Navy to conduct its national defense mission, yet still protect the natural resources that gave rise to the sanctuaries.

TECHNOLOGY

The environmental technology program supports our cleanup, compliance, conservation and pollution prevention efforts. Our technology development efforts focus on satisfying technology needs for the military applications of today and tomorrow. We first look to the marketplace to supply us with our technology needs. When there is no off-the-shelf technology available, we perform the necessary research and development in our laboratories, or contract with universities or commercial labs.

Some technologies we develop also have commercial applications - so-called dual use technologies.

I have already discussed two major environmental technology efforts - development of the plastic waste processor, and our efforts with chemical manufacturers to find ODS alternatives. There are many other smaller scale, but equally important research efforts we are pursuing. For example, we seek to:

- o Develop a secondary oily wastewater treatment system that removes trace quantities of organic and heavy metals in anticipation of uniform national discharge standards or tighter state or local restrictions.
- o Develop sensors that detect the presence and level of toxic substances in harbor waters and sediments.
- o Develop techniques to concentrate greywater and sewage to improve storage and provide treatment opportunities.

Base Closure Implementation

The base closure process is a painful one for the Department of the Navy, and for the impacted communities who have welcomed our presence for so many years. Yet, the base closure process is one we must pursue if we are to properly size the shore infrastructure to the smaller force structure of the post-cold war era.

We are implementing the first three of four scheduled rounds of base closure, commonly referred to as BRAC 88, BRAC 91, and BRAC 93. The Secretary of Defense has forwarded recommendations for BRAC 95 to the Defense Base Closure and Realignment Commission. As BRAC 95 is being reviewed by the Commission, I will focus most of my remarks on environmental issues with BRACs 88, 91 and 93.

Environmental concerns are an important aspect of BRAC implementation. BRAC environmental funding supports: environmental assessments and environmental impact statements under NEPA; RCRA compliance issues directly associated with closure, and of course, environmental cleanup of soil and water contamination due to past activities.

Timely completion of the NEPA process is one of the most critical elements in our ability to implement BRAC decisions to realign forces and dispose of surplus properties. While the closure decision is exempt from NEPA, reuse, realignments, and property disposal actions are subject to NEPA and must be addressed. Experience teaches us to get an early start on NEPA documentation for BRAC 95 realignments. Among the many environmental issues that can surface and require mitigation measures are wetlands, endangered species, air and water quality, and cultural resource concerns.

In accordance with the President's Five Point Plan, as well as his mandates for environmental justice, we have firmly integrated minority and low-income community awareness in our planning process for base disposal. We consider potential impacts to these communities in our base disposal and reuse Environmental Impact Statements that are part of the NEPA process. We encourage community input by preparing public notices, document summaries, and public hearings in more than one language when needed.

We are implementing fast-track cleanup as part of the President's Five Points For Revitalizing Communities Affected By Base Closures. We have established RABs at all significant base closure locations. I have previously discussed the makeup and

importance of RABs. We have established Base Cleanup Teams (BCTs) consisting of Navy, EPA Region, and state representatives. This partnered approach, which forms much of the basis for the fast-track cleanup effort, has helped reduce red tape, improve cooperation and coordination. The BCTs submitted their preliminary Base Realignment and Closure Cleanup Plans (BCPs) last March, and we are awaiting an update. The BCTs are also working very closely with local redevelopment authorities to ensure that priority attention is given to clean up those land parcels with the highest potential for reuse. We are doing everything we can to speed cleanup and promote community reuse of the property.

One example of this greater cooperative approach is Naval Station Charleston, a non-NPL BRAC 93 closure location. Concurrent document review and a cooperative atmosphere has replaced the normal adversarial approach, and trimmed six months to several years off of the normal process.

Another good example is Mare Island Naval Shipyard in California, where the existing labor force of the shipyard is doing some of the environmental cleanup work while attending on-site college level courses sponsored by the University of California. This approach accelerates cleanup, speeds reuse, and will equip shipyard workers with new marketable skills.

Because the Community Environmental Restoration Facilities Act (CERFA) defines clean parcels as having no hazardous material

stored for over a year, released, or disposed of, we have been able to propose only 23 percent of all acreage to be transferred, and

CERFA CLEAN STATUS

ACRES	BRAC 88	BRAC 91	BRAC 93
TOTAL AVAILABLE	19,533	14,195	67,588
FOR TRANSFER	19,533	13,873	51,586
PROPOSED CERFA	0	897	23,442

regulators have so far only approved less than one percent as CERFA clean. We are awaiting regulator concurrence on nearly all of the BRAC 93 proposed CERFA clean parcels.

CONCLUSION

Our environmental program supports readiness, satisfies our legal obligations, and sustains our civic role to protect the Nation's health and welfare. We are implementing a new approach to cleanup past contamination based on stable funding and use of relative risk management. Our compliance program allows Navy and Marine Corps activities to meet current federal, state, and local environmental standards. Our conservation program preserves the natural and cultural resources on our bases, and ensures continued operational access to these areas. Our pollution prevention seeks to meet compliance needs by cutting pollution at the source and improves readiness and lowers costs. Our technology program provides innovative new solutions to meet the environmental technology needs of today and tomorrow. And our environmental efforts at base closure locations are designed to expedite cleanup and speed community reuse of the property. Across the board, we are taking steps to control rising costs.

That concludes my statement. I would welcome any questions.

Mr. BATEMAN. And Secretary McCall.

Mr. MCCALL. And the Air Force. I would just like to add that I am glad to be here on behalf of the Chief of Staff and the Secretary.

I would like to submit for the record their policy letter on environmental goals, "Sustain our readiness, be a good neighbor, and save money for the taxpayer."

Mr. BATEMAN. We will be happy to receive that document for the record.

[The statement of Mr. McCall follows:]



SECRETARY OF THE AIR FORCE
WASHINGTON

MEMORANDUM FOR DISTRIBUTION C
ALMAJCOMS/CC

SUBJECT: Environment, Safety and Occupational Health Initiatives

The Air Force has an unparalleled record of environmental achievement and vigilance for the safety and health of our Air Force family. We are a good neighbor to many American communities, share millions of acres of natural and cultural resources with the public, and conduct our activities with the greatest concern for their safety. Our future commitment to environment, safety and occupational health (ESOH) programs will not be diminished even in today's challenging budget climate. We are announcing three initiatives with objectives to ensure our commitment to ESOH is realized. Our initiatives are to sustain readiness, to be a good neighbor, and to leverage our resources.

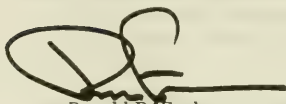
Sustain Readiness: The Air Force is committed to a comprehensive effort to sustain readiness. Preserving the long-term environmental vitality of our training assets contributes significantly to that effort. Our training ranges and airspace are absolutely essential to train our aircrews to prevail in combat. SAF/MI and AF/XO in conjunction with the appropriate commands will develop a comprehensive airspace and range plan by December 1995. This plan will address both operational and environmental issues, and support our training needs for today and the future.

Be a Good Neighbor: The second area of emphasis will be closer cooperation between local communities and the Air Force in environmental matters. To this end, SAF/PA and our installation public affairs offices will play an instrumental role. The challenge to the Air Force is to solicit the assistance of our communities in finding common sense solutions in our cleanup at active and closure bases. Our bases have set up Restoration Advisory Boards (RABs). We must enlist RABs in our search for scientifically grounded, environmentally protective, and fiscally responsible solutions to cleanup our active bases, and to achieve the fastest deed transfer of closure bases. By August 1995, we are asking our MAJCOMS to require RABs to complete a review of the relative risk evaluations at our active base cleanup sites. We also want SAF/MI, AF/CE and AFBCA to implement a process

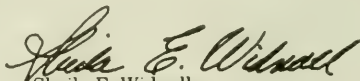
that ensures new and innovative approaches to cost effective cleanup are available to our people at the installation level.

Leverage our Resources: Our Environment, Safety and Occupational Health Programs must do more today than ever before, and do it with increased cost-effectiveness. To accomplish this, first we must leverage our resources by using new technology, by working better together, and by developing libraries of environmental alternatives. Second, we need an investment strategy that focuses on preventing pollution, eliminating hazards, and reducing costs by using tools, such as cost benefit and life cycle analysis. This will lead to environmentally sound, technically solid, and financially responsible decisions. We are asking for a cooperative effort between SAF/AQ, SAF/MI, AF/CE, AF/LG, AF/SE, AF/SG, AF/XO and the MAJCOMS to develop a strategy to incorporate these principles. SAF/MI will take the lead in organizing this effort.

Our three initiatives call for new thinking. We must transcend traditional boundaries so we can lay the foundation for effective and streamlined ESOH programs to support the Air Force's operational vitality into the 21st century. To assist our effort, we ask the Air Force Environmental Protection Committee to monitor progress. The first progress report is due in July 1995. With your continued support, we will attain our objectives.

A stylized, handwritten signature in black ink, featuring a large, looping initial 'R' and a long horizontal stroke extending to the right.

Ronald R. Fogleman
General, USAF
Chief of Staff

A handwritten signature in black ink, appearing to read 'Sheila E. Widnall' in a cursive script.

Sheila E. Widnall
Secretary of the Air Force

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE COMMITTEE ON NATIONAL SECURITY

SUBCOMMITTEES ON MILITARY READINESS

AND

MILITARY INSTALLATIONS AND FACILITIES

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 24, 1995

SUBJECT: AIR FORCE ENVIRONMENTAL PROGRAM

STATEMENT OF: MR. THOMAS W. L. McCALL, JR.

**DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(ENVIRONMENT, SAFETY AND OCCUPATIONAL HEALTH)**

**NOT FOR PUBLICATION UNTIL RELEASED
BY THE COMMITTEE ON NATIONAL SECURITY
HOUSE OF REPRESENTATIVES**

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am pleased to have this opportunity to discuss the Air Force environmental program.

The Air Force environmental program supports force preparedness, protects local communities and military personnel, and manages its resources efficiently. The Air Force leadership is committed to finding new ways to make our environmental and our occupational health programs work together to support our mission, serve our people, and protect America's environment while conserving taxpayers dollars.

As Secretary of the Air Force Widnall, and our Chief of Staff, General Fogleman, stated in their Joint Memorandum to all Air Force Major Commands:

"The Air Force has an unparalleled record of environmental achievement and vigilance for the safety and health of our Air Force family. We are a good neighbor to many American communities, share millions of acres of natural and cultural resources with the public, and conduct our activities with the greatest concern for their safety. Our future commitment to environment, safety, and occupational health (ESOH) programs will not be diminished even in today's challenging budget climate.... (These programs) must do more today than ever before, and do it with increased cost effectiveness."

The excellence of our environmental programs has been recognized repeatedly. The President's Council on Environmental Quality recognized it as outstanding in 1993. Other awards have come from the Sierra Club and the Nature Conservancy. The Award from the Nature Conservancy in 1994 was the first award they had given to a federal or state agency. Just this past January, Tinker Air Force Base was the first Defense

Department recipient of Renew America's coveted Sustainability Award. This was not Tinker's first environmental award, however. It was the latest in 38 awards for environmental excellence won by that base alone in the last 3 years!

Many of our awards and innovations come from our industrial sector, like the Air Logistics Center at Tinker Air Force Base. Our environmental engineering and occupational health specialists are working with our experts in acquisition, logistics and maintenance to improve our industrial base. The result of this teamwork is increased productivity, reduced pollution, and improved worker health. We will return value to the American taxpayer.

In summary, the Air Force environmental program with its strong public health foundation delivers value to America in better public health and a cleaner environment. Investment in our environmental program is a sound investment for national security and the American taxpayer. General Shalikashvili said it well: "As stewards of the nation's security, we realize that ultimately, the well-being, quality of life, and economic development of our citizenry depend on a healthy environment."

FORCE PREPAREDNESS AND THE ENVIRONMENTAL PROGRAM

Reductions in force structure and bases do not mean our need to train is reduced. Having fewer personnel in Air Force uniforms puts a premium on the training each one receives to prepare for combat. Our aircrews cannot train without access to our ranges and airspace. The public will not support the continuing use of our ranges and airspace if our activities destroy and despoil the public lands that underlie these military training

areas. We work hard using professionals trained in many different specialties to maintain the property and resources entrusted to us. It is for the Air Force to show that we are good stewards of our lands if we are to maintain access to them and the airspace above them.

Because our ranges tend to be away from population centers, they often contain or border popular recreational, natural, and cultural resources, such as hunting and fishing areas, endangered species, and archaeological sites. Aircraft overflights are another aspect of the Air Force involving natural resources. Hunters, fishermen, and other recreational users of natural resources, as well as ranchers, often oppose flight training because of noise effects. We try to work with them to mitigate the impacts of training in the airspace above the lands they use. Our environmental professionals manage the ecosystems on our ranges. They work with natural resource agencies to ensure our access to these assets.

Over seventy threatened and endangered animal and plant species are found on our lands. In the West, we have fenced portions of the Nellis Range to protect the desert tortoise. We schedule launches of Delta rockets at Vandenberg AFB to protect nesting least terns. In Alaska, we have modified our flying routes and altitudes to avoid peregrine falcon nesting areas. In Florida, we adjusted the lights on launch pads at Cape Canaveral to protect nesting sea turtles and their newly hatched young. These modifications have little impact on readiness in the short term, but support the long term mission. In fact, some of our wings are incorporating the avoidance of sensitive ecological areas into their training scenarios, thus enhancing both training and the environment.

We support interagency coordination and a process that will allow airspace and land users the opportunity to achieve negotiated solutions. Over the last year my office has worked with other federal agencies, property owners, environmental groups, citizen groups, native American groups and state officials to promote discussion of airspace and associated land use issues. This effort grew out of the realization that we have not attempted much partnering in this arena. This fresh attempt at partnering I believe is already paying dividends by opening lines of communication between the flying community and its outside neighbors, leading to smarter planning, and thus avoiding needless confrontations down the road. By promoting sound planning and stewardship, the Air Force has shown that environmental security and national security are mutually compatible.

A quality environmental program also supports force preparedness by allowing the successful performance of our mission. Failure to comply with environmental laws and regulations can affect the readiness of our forces by restricting operations or prohibiting them outright, and it is our installation commanders who are held responsible for compliance. For example, if the Air Force does not upgrade its wastewater pre-treatment facilities to meet current or new effluent standards, then our industrial operations may be severely curtailed. If we are unable to comply with State Implementation Plans (SIPs) in non-attainment areas under the Clean Air Act, then the Air Force may be prevented from realigning force structure and training operations may have to be curtailed or stopped.

The Air Force has a sound environmental compliance program. Open enforcement actions from federal and state regulators from FY92 through FY94 were reduced 50%.

We also have maintained a relatively flat investment profile for compliance even though regulatory requirements have continued to grow. With sound management and a strong commitment to a quality program, we hope to continue these trends in the years ahead.

CLEANUP COMMITMENTS AND LOCAL COMMUNITIES

We have an obligation to be a "good neighbor" to the communities in which we live. We will not allow pollution to endanger the health and environment of the communities we defend, the same communities that supported us all during the Cold War and Desert Storm.

We also have an obligation to the men and women in our armed forces, and their families.

While our forces train to maximize their chances to survive at times of war, we are determined not to endanger their or their dependents' health in times of peace. By complying with current environmental laws and regulations, preventing pollution at its source, and cleaning up the contamination that resulted from past activities, we protect the air and water supplies of our neighboring and Air Force communities. An example of our commitment is our lead abatement program. This program protects military families by removing lead-based paint from their homes, which protects the children of our personnel from possible brain damage that may come from consuming paint chips.

We recognize that our resources are not infinite. The challenge to the Air Force is to solicit the assistance of our communities in finding common sense solutions to all of our environmental challenges. Restoration Advisory Boards (RABs) represent local business and community interests in advising our bases on timely and cost-effective cleanup. RABs

allow the communities that will be most affected by our cleanup decisions to provide advice to the Air Force as we evaluate common-sense, cost effective solutions for cleanups. We now have RABs at all of our closure bases, and approximately 85% of our active bases.

We clean up contamination at our active duty bases under the Defense Environmental Restoration Program (DERP), which was established in 1986 by Senator Ted Stevens. The Congressional reductions in DERP over the last three years including proposed rescissions, have sent a clear message that we need to find ways to reduce the cost of the program while ensuring maximum protection of the public and the environment. However, these Congressional cuts also mean the Air Force does not have enough funds to meet our cleanup schedules under our existing agreements. In some cases this will mean that the cleanup progress agreed to in our cleanup agreements will have to be modified or renegotiated.

I am hopeful that the community will be able to advise the Air Force and our regulators on alternatives that all sides will find acceptable. To assist in this process DOD is working with EPA, state regulators, and community leaders to implement an easy-to-use method to evaluate the relative risks at our sites.

The relative risk evaluation model being presented by DOD to our RABs and our regulators will allow everyone involved to assess the pollutant and its toxicity, explore possible pathways, if any, by which the contaminant could come into contact with humans, and the risk to human health posed by this situation. Based on this information, the participants will subjectively determine whether the relative risk to human health is a high

risk, medium risk, or low risk. Armed with this shared understanding, we can all plan together for the most efficient and cost-effective way to sequence the required cleanup work, so as to spend the taxpayers' dollars to protect the community.

For this approach to work, we must be able to build a team of trust with our communities and our regulators. The Air Force must make it clear that we are not using relative risk evaluations as a ploy to reduce our commitment to protect the community. To demonstrate our absolute good faith in this effort, the Air Force will come before each of our RABs as we seek the best course to protect public health, and do it within our budget constraints.

This will be a learning experience for all of us. We have an opportunity to actually achieve more community protection while living within our budget. Our plans will fail, however, if any party seeks unilateral advantage. If our partnering attempts fail, we will face community criticism and regulatory enforcement. The funds we need to train our pilots and operate our bases could hypothetically become subject to enforcement actions under the Resource Conservation and Recovery Act (RCRA). If DERP is insufficiently funded, regulators could use their authority under RCRA to compel us to fund cleanups out of our operational accounts. Should this happen, Congressional funding constraints will not limit cleanup costs as envisioned. To date, fortunately, this has not happened.

Therefore, I ask you to work with us, your constituents and our communities, and the regulatory community. We must work constructively and reposition our cleanup activities based on the relative risk that the on-and-off-base communities face from environmental contamination. I also ask you to assure all concerned that although the

funding is reduced from the FY 95 level, Congress is committed to provide the funds needed to preserve the health of the people and the communities we serve.

While we are pursuing our relative risk strategy, the Air Force is getting on with its cleanup effort. By the end of FY 95, we will have directed over \$487 million in our DERP program to actual cleanup activities over the past three years, each year allocating a greater proportion of our budget to cleanup. Our approach is to use studies to assess the real need for cleanups, pick the most cost-effective technology if cleanup is required — then get the job done. Studies have been a valuable part of our cleanup effort. For example, our studies gave us the data we needed to demonstrate to regulators that it was safe to close out 1086 of our approximately 4100 sites on active installations without any expensive cleanup projects.

In FY96, we are pushing for most of our programmed funding (66%) to go to actual cleanup. Even though FY96 is a transition year for our relative risk approach, 67% of our funds will address high risk sites both in the study and cleanup phases.

In the base closure arena, our goal is to put the property in the hands of the community or its new owner, allowing it to generate revenue and take it off Air Force rolls. Approximately 22,000 of the 81,000 acres available for reuse from the first three BRAC rounds have been transferred either by deed or lease. Our environmental cleanup effort facilitates reuse of our closed installations to help replace lost jobs, and restore the economic vitality of the community. Reuse efforts, such as new airports, theme parks, and industrial activities have created about 5900 jobs to date. Communities will create many more jobs as they fully implement their redevelopment plans.

The Air Force does not want to be a long-term landlord of our closed bases. However, the Air Force can not transfer deed title of the property to a community or its new owner until environmental cleanup is completed or the regulators agree the appropriate remediation is in place. Until we clean up, we are the landlord of our closed military bases. These bases will continue to drain our budgets as we oversee private sector tenants, pay support bills and maintain infrastructure. As a landlord, the Air Force also retains liability for the environmental compliance of our tenants, thus placing additional funds at risk.

Based on current BRAC clean up plans, the Air Force will have all remediations in place by the year 2000 for the bases in the first three BRAC rounds. Bergstrom Air Force Base, in Austin, Texas, is a great example of how the Air Force works with the local community and their redevelopment efforts. We have revised our clean-up schedules to accommodate the construction of the new City of Austin airport — a \$600 million project on Bergstrom AFB. The Air Force cleanup plan will support the opening of the airport in 1998.

Our Regional Compliance Offices have improved partnering, coordination, and communication with our regulators. For example, we reached an agreement with Florida on cleaning up petroleum spill sites at Eglin AFB that included risk-based prioritization and a dispute resolution process, saving time, money and getting on with the cleanup. The Air Force is the lead agency on two pollution prevention centers, in Virginia and Alaska, that are cooperative centers for the exchange of technologies between DOD, DOE, EPA, NASA, and state environmental agencies. These centers have provided us an opportunity

to share pollution prevention opportunities with not only our federal and state partners, but also our surrounding communities.

Outside the cleanup area, we have entered into cooperative agreements with the Nature Conservancy, the National Trust for Historic Preservation, and natural resource agencies such as the U.S. Fish and Wildlife Service and the National Park Service. These agreements have proven to be a cost-effective way for the Air Force to make use of outside expertise to help us manage our natural resources wisely. For example, again at Eglin AFB, we partnered with the Nature Conservancy, the U.S. Fish and Wildlife Service and the Florida Game and Freshwater Fish Commission to develop a model ecosystem management plan. The partnership did not end with the completion of an award winning plan. These organizations have worked closely on a routine basis to implement the objectives and goals specified in the plan.

We have to be good neighbors -- over 60% of Air Force property is shared with the public. Our installations support one-half million acres of managed forests, 150,000 acres of cattle grazing and agricultural crop production. The Air Force issues 12,000 permits for hunting and fishing, and 7,000 permits for camping and picnicking. We are proud that our lands provide numerous opportunities for multiple users of our resources.

LEVERAGING OUR RESOURCES WISELY

Our environmental programs must do more today than ever before, and do it with increased cost-effectiveness. To accomplish this, we have an investment strategy that focuses on preventing pollution, eliminating hazards, and reducing costs by using tools

such as cost-benefit and life cycle analysis. Second, we are leveraging our resources by using technology, and streamlining the exchange of information.

Like industry, we have found that it is cheaper and more effective to prevent pollution at the start than to clean it up once it occurs. To date we have been able to eliminate the use of many hazardous materials and ozone depleting substances (ODSs) that are not mission-essential to the operation or maintenance of our weapons systems. In so doing, we have reduced the costs associated with handling and disposing of hazardous wastes, and avoided health risks to our personnel, their families and our communities.

The Air Force has focused its pollution prevention program on eliminating ODSs and hazardous materials from our new and existing weapons systems and our installations. Finding and applying the right technologies has been the cornerstone of our pollution prevention efforts.

In weapon acquisition programs, the Air Force is striving to design ODSs and hazardous materials out of programs so they will not have to be managed over the life cycle of the weapon system. The Air Force's newest aircraft, the F-22, is an example of our efforts to eliminate ODSs.

In the case of the F-22, the Air Force designed out all ODS usage but one prior to developmental testing. This single use, in the onboard fire protection system, may be eliminated in the next few years through Air Force research which is going on right now at Wright-Patterson Air Force Base. This research is an Air Force-led cooperative effort with airline manufacturers and other industry and government participants. When

successful, we will have protected the aircrews, passengers, and the atmosphere while developing an American product with a world-wide market

We are currently reviewing all the technical orders that require an ozone depleting substance or chemical on the EPA-17 list in search of less hazardous substitutes.

Eliminating the use of ODSs and hazardous materials in existing aircraft presents a unique challenge. Modification to existing aircraft, most of which the Air Force procured before 1990, is costly and complex. Program managers have limited re-design flexibility, less money, and must deal with more technical orders and a larger customer base than their new weapons system counterparts. To put the problem in perspective, there are 158,000 technical orders that must be thoroughly reviewed for ODSs and hazardous materials. Since each system has applications that are unique to that system, program managers must deal with each application separately

The Air Force strategy is to hold the weapon system program manager accountable for reducing ODSs and hazardous materials. This approach has been a success. For example, the F-16 "Falcon Halon" Program won the EPA Stratospheric Ozone Protection Award in 1994 by reducing the use of halon in over 2,000 aircraft by 39,000 pounds per year. The B-2 aircraft program manager has reduced the use of ODSs by 92% and hazardous waste generation by 75% since 1992.

The Air Force is also re-engineering its industrial processes. For example, we now use aqueous parts washers to clean aircraft parts, dramatically reducing the use of hazardous solvents. In April 1993, the Tinker AFB Propulsion Production Division

eliminated 34,000 pounds of CFC-113 used in its vapor degreasers by installing aqueous spray washers. Parts cleaning times were also reduced by approximately 30%. Some of our depots are using "electromagnetic deposition" as an alternative to electroplating. These projects reduce wastewater by 19 million gallons per year and hazardous waste by 228 tons per year. The carbon absorption system used for paint booths at our depots captures volatile organic compounds (a major contributor to smog) and is another Air Force technology success story. These systems have reduced our volatile organic compound discharges by 40,000 pounds per year, saving the Air Force \$825,000 in the first year. Ultrasonic cleaning has replaced ozone depleting substances in our depot avionics repair shops, eliminating 8,000 pounds of trichloroethylene (TCE) annually, and saving us \$1.15 million in cost avoidance. Our ODS elimination program has been a major success story. We will have reduced our total ODS usage by 78 % by the end of FY95 from an FY92 baseline.

Our pollution prevention strategy has already reduced hazardous waste disposal by 54% between calendar years 1987 and 1993. A major initiative that will further enhance our reductions in hazardous waste disposal is the Hazardous Material Pharmacy. Air Force guidance requires every installation establish a "pharmacy" to be the single control point on an installation for the ordering and issuing of all hazardous materials. The pharmacy is a major pollution prevention tool at the installation level. A key element of the pharmacy is the computerized tracking system that aids the pollution prevention effort by controlling who can use a hazardous material, and how much will be distributed in the supply system. With this system, Hill AFB avoided over \$10 million in material

purchases over a two-year period. Altus AFB reduced hazardous waste due to expired shelf life of chemical stocks by 80%. This has resulted in a projected one-year cost avoidance of \$60,000.

Our technology program has been an innovator of low-cost, low-tech solutions to some of our thorniest environmental problems. We now remove paint from our airplanes by blasting them with tiny plastic beads and in some cases dry ice at high pressure, instead of using toxic solvents.

In conjunction with the "Big Three" automakers, EPA, Navistar, the California Air Resources Board and the American Foundrymen's Society, McClellan AFB is pioneering a reduced-emission metallurgical casting process at its research foundry. Such a process will also protect our domestic industrial base in providing a vital defense resource, since 90% of all manufactured items used by DOD are either castings, contain castings, or are derived from castings.

To cut costs in our cleanup programs, we partner with local, state and federal officials to reach common-sense, cost-saving solutions and encourage the application of new technologies. At Dover AFB, we are partnering with EPA and DOE to develop an innovative technology for the natural attenuation of chlorinated solvents. Chlorinated solvents historically have required expensive cleanups. This technology could reduce the projected cleanup costs at Dover AFB by as much as \$5 million. An added advantage of this partnering effort is that the majority of the funds are from the private sector.

The Air Force Center for Environmental Excellence is also pursuing other technologies dealing with the natural attenuation of chlorinated solvents. If these

technologies are successful and approved by the regulatory community, the cost avoidance across the Air Force could be as high as \$100-\$120 million.

At Travis AFB, instead of spending \$3 million to excavate, remove, treat and backfill contaminated soil, we worked with state and federal regulators to leave the soil in place and use a bioventing technology, reducing the cleanup cost to \$1 million. Air Force-regulator teams have been successful in installing over 120 bioventing systems in 30 states and in all ten EPA regions. At George AFB, the remediation action initially proposed included source removal, soil vapor extraction with thermal abatement, and air sparging of ground water, at an estimated cost of \$22 million. With the support of state and federal regulators, we are using intrinsic remediation, or natural attenuation, at a cost of \$4 million — saving \$18 million.

We are most proud of what we are able to accomplish as a team. Whether we are looking at the acquisition of a new weapons system to ensure it uses less hazardous materials, the application of new technology, or the re-engineering of our industrial processes, the Air Force uses a team approach. Our operational medicine community of bioenvironmental engineers is playing an important role. They study and document every industrial process in the Air Force and the hazards of such processes to our personnel, so we may target the processes that place our personnel at the most risk. The medical community provides a powerful synergy with the maintenance, supply, systems manager, acquisitions, and civil engineering team member to systematically reduce hazards, costs and pollution while improving efficiency and effectiveness.

CONCLUSION

We are proud to support the premier air and space force in the world. As the rest of the Air Force has consolidated major commands and restructured how it does business, we are re-engineering how the Air Force does environmental business. But as Secretary Widnall and General Fogleman recently stated, "We also recognize our obligations to American communities, not only in time of need, but as full partners in the great American journey." Maintaining combat readiness, being a good neighbor, and leveraging our limited resources defines the Air Force environmental program. In partnership with our regulators and our communities, we will continue to push ourselves to be the environmental stewards the American people deserve.

Mr. BATEMAN. We will now proceed with questions. I have a few, and then I'll recognize in turn the cochairman, the gentleman from Colorado, and the ranking members, the gentlemen from Virginia and Texas.

Secretary Goodman, in 1991 the Department of Defense estimated it would cost almost \$30 billion to clean up all DOD contaminated sites. Is there an updated estimate, and has it gone up or has it come down?

Ms. GOODMAN. The 1991 estimate I believe, Mr. Chairman, was about \$25 billion. At the present time I would say that we think the cost estimate of cleanup—this is environmental restoration of our bases—is in the neighborhood of \$30 billion, and that is the best estimate that we have today based on our annual report and other figures. One of the reasons we think that this relative risk concept is so important, and ask for your support of it, is because there is always going to be some uncertainty in the cost. If I tell you \$30 billion today, I can't tell you that that figure is never going to change because the very nature of this business is uncertainty. We don't know all of what is in the ground. That is why we have to go and find out whether it is significant enough to need to remove it.

As we learn more, our cost estimates change. Sometimes they go up as we get more information; sometimes they go down because it is not significant or because we get better technologies.

I believe the variance in our cost estimates is beginning to slow some. I think what is important to note is that the relative risk tool will help us manage and protect human health and buy out this program like you would a mortgage. We want to buy it out with your support at a stable level over the next several years, probably the next several decades at this rate.

Mr. BATEMAN. I certainly don't mean to indicate that this follows as night follows day, but if the estimated cleanup costs are rising after the expenditure of many, many millions of dollars, it certainly is a disappointing trend, and one would have hoped you might even have seen the remaining cost of cleanup being reduced rather than increasing.

Ms. GOODMAN. Well, let me remind you where we are in the program, Mr. Chairman—1994 was the first year that we began to invest more of this effort into the actual dirt moving activities than the investigation of what is there now. So we really just got to the point where we know a sufficient amount about our sites, and we have about 20,000 sites in the overall program that we can say this is what we need to do and responsibly go in and move dirt or treat the ground water at those sites.

So we are now at the more mature phase of this program, and I think we have gotten much better at understanding the costs involved and limiting that uncertainty, but it is the nature of this work, it is the nature of not knowing what has been released that will always produce some uncertainty. I think we have new methods by which we can manage it responsibly, and that is the relative risk approach and a stable funding profile.

Mr. BATEMAN. As a part of the base closure process that the Department of Defense utilizes, you have implemented a fast track cleanup program for installations which are being closed, which I

understand ought to be given priority because it puts the facilities in a position where they can be returned to use for the community that may be suffering as a result of the closure. Would you comment or how these fast track cleanup programs are associated with base closure work and whether or not they give us a model for implementation at active bases?

Ms. GOODMAN. Thank you, Mr. Chairman.

I think they do, and let me describe briefly the principle elements of the fast track cleanup program.

First, we have created cleanup teams at all of our closing bases because we found in the past that one of the reasons that cleanup was so slow at the closing bases is that there was a lot of documentation that had to be passed between DOD and the regulators and that took a lot of time. We wanted to speed up that effort so we created formal teams so that, at every closing base, EPA and State regulators along with the DOD, Air Force, Army, or Navy, are working as a team and have a mandate to try to move the schedule as quickly as possible. We have done that at a number of our installations. At Charleston Navy Base and at Fort Devens, both of which are detailed for you in my written testimony, those teams have accelerated the schedules for cleanup.

Second, we wanted to bring the community in early so the citizens in the community would understand what the environmental conditions are at the base, and be able to help us determine what the highest priority for reuse is so that we can focus on the community's needs first. So we have created restoration advisory boards for every base. We also have them at most of our active bases today, and they are helping us considerably.

Third, we resolved some issues concerning indemnification of future transferees or future lessees of property at closing bases so that future users would be assured that they would not be tagged with the responsibility for contamination caused by the Department of Defense, and we resolved that a little less than 2 years ago now with the help of Congress in sorting out some conflicting legislation on that point.

Fourth, we have worked to speed the process of developing environmental impact statements which have to be done in order to dispose of property, and we try to do those within 12 months of the time that the community submits its plan for reuse. That is important, because that is their blueprint for the future.

Finally, we have worked to make clean parcels and other property available for transfer from BRAC Rounds I and II; 60 percent of the property from those two rounds is now environmentally acceptable for reuse either by lease or by deed.

Mr. BATEMAN. Thank you, Madam Secretary.

Secretary Walker, before I turn to the cochairman from Colorado, let me comment on one aspect of something that tweaked my interest in Secretary Goodman's presentation, and that is the historic preservation. I turn to you because I want to compliment you and the U.S. Army for the remarkable thing that you have done for the people of the United States in the preservation of that historic treasure at Fort Monroe. This is truly one of the most historic sites in America. It is inspiring if you go there and see the way it is preserved, the way it is protected while, at the same time, discharging

a vital mission for the U.S. Army and our national security. It is really a remarkable program, if you can call it that, that the Army and the Department of Defense ought to be very proud of.

Mr. WALKER. Thank you, Mr. Chairman.

Mr. BATEMAN. The gentleman from Colorado and today's cochairman, Mr. Hefley.

Mr. HEFLEY. Thank you, Mr. Chairman.

I would also like to add that Warren Air Force Base in Wyoming is another perfect example. It's an old cavalry post and when you walk onto it for all the world you could imagine yourself in the middle of a John Wayne movie. And, yet, they have taken the old stables that are still there and they are using them for computer centers but they still look like stables on the outside, and the old buildings and barracks are there. It is wonderful.

Let me ask you, Ms. Goodman, about the relationship with the State regulatory agencies and with the regional EPA agencies also. You know, not every region operates the same. I understand you have had more trouble, for instance, in region IX than in some of the other regions—I guess that is California—and also the State agencies push many times. I am particularly aware of the situation in Colorado with the Rocky Mountain Arsenal where the State Health Department wants to insist that you clean it up pristine pure for any use that might be made of it. The plan is not to use it for a housing development or playgrounds, but to use it for a wildlife refuge, and yet you have had a terrible time with the State of Colorado Health Department in trying to do that.

Secretary Goodman, speak to us a little bit about this problem. You may have a remediation technique that has worked perfectly well somewhere else, and when you go to region IX and they say no, you can't use that here until you have tested it more. And I'm sure there are others around like that where the State just absolutely is intransigent about it.

Ms. GOODMAN. Thank you, Mr. Chairman.

Yes, Rocky Mountain Arsenal is certainly one of our most complicated, and it is actually DOD's largest and most expensive cleanup. It is an example of a case where the Department of Defense has said that we think a responsible cleanup can be done using certain techniques and containing the contamination, recognizing that it will be used as a wildlife refuge and addressing the needs of the community which go largely to ground water and assuring the safety of the drinking water in their community.

I will ask Mr. Walker in a moment to speak more about it, but we are presently engaged in discussions with the State and EPA hoping that they will understand that what the Department of Defense and the Department of the Army proposes to do is the responsible approach both to protect human health and the environment, and also to protect costs.

Even the lower cost remedy of Rocky Mountain Arsenal is going to be \$2 billion. That is extraordinarily expensive. We don't think in this case that the several-billion-dollar remedy is going to be in the taxpayer's interest and provide value for that extra money.

Mr. HEFLEY. Does the \$2 billion include the cleanup of the munitions that were dumped, or is this just the ground and the water pollution and that kind of thing?

Mr. WALKER. Mr. Chairman, that includes dealing with Basin A where the old munitions were. It includes a cap of that. Also the \$2 billion includes the money that we have already spent there, and it has provisions for the off-site water supply. So it is the total cost of the package, but it also includes our roughly \$600 million already spent there.

Ms. GOODMAN. Rocky Mountain Arsenal is, perhaps, an extreme example of something that we face at many of our installations and at many of our proposed cleanups, and where we want today to design a cleanup remedy that is consistent with the future land use and at the same time protective of human health and the environment. Under current law that is not always easy to do because many of our cleanup standards presume that cleanup will be conducted to residential use, and, as you noted, Mr. Chairman, not on every location will we be residentially reusing that property.

So having the flexibility to design our cleanup standards to future use would be very helpful. We try to do that today, but it can be an arduous negotiation process with the regulators because they have a mandate in most cases to have a cleanup to residential use regardless of what the actual use is going to be.

You also mentioned the different EPA regions, and we have found that, in fact, the EPA regions can be quite autonomous, and what region IX is doing is not the same as what region VIII may be doing up in Colorado. So we put in place last year a system of regional environmental coordinators with our military departments as executive agents in each region.

For example, in region III in Virginia the Navy is the executive agent and coordinates the military departments in that region to work with the EPA regional administrator so we can ensure that we are being consistently regulated and ensure that we are sharing information across the services and getting good value for our dollar.

Let me comment for a moment on Fort Monroe and F.E. Warren that both chairmen mentioned. We have a program that has supported much of the work to maintain those historic properties. It is called the Legacy Resource Management Program, and it has enabled the Department of Defense, in the last couple of years, to preserve those historic sites. It has been very valuable in providing that protection, and it is part of our environmental program.

Mr. HEFLEY. Do you need a legislative change in order to be able to clean up to future use?

Ms. GOODMAN. Last year, Mr. Chairman, the administration proposed reform of the Superfund law, and it came very close to passage. It passed in the House, and it came very close to passage in the Senate but did not make it all the way through.

I understand there is consideration being given to reauthorizing Superfund this year, and consideration of future land use as part of that reform I believe is critical related to being able to move away from today's presumption of permanently treating all waste regardless of their type.

There are some locations at Rocky Mountain Arsenal that are hot spots. Those should probably be permanently treated. There are other locations there that are a much lower risk and don't need

this presumption which drives up our costs. So those responsible reforms, I believe, could help us a great deal.

In addition, many of our bases are listed on the national priority list of Superfund. We have over a hundred military bases so listed. There are two limitations we find with that today, both of which could be addressed in the reform of Superfund this year. The first is that most of our bases get listed what is called fence line to fence line, the whole base, even if you have only a few sites on that base that actually qualify for the contaminant listing that warrants being on the NPL. That means the whole base has to go into the Superfund process, which has many steps in it and can be quite costly.

Because we have improved our relationships with the States considerably, we sometimes are doing quite well working under State programs, and moving us into the NPL, particularly the whole base, is not cost effective.

Second, we want to be able to work with States where we have a good program, and then there are some reforms specific to our base closures that would be very helpful to have because they would allow us to more rapidly put that property into productive reuse.

Mr. HEFLEY. Finally—and then I'll quit—if we got the kind of reforms in the Superfund legislation that we are talking about, how would this change DOD funding requirements in terms of what you are requesting for the cleanup?

Ms. GOODMAN. Well, I don't think it is going to change fiscal year 1996. The reason is that, even if you pass a law in 1995 it won't take effect until at least 1997 or 1998 because of the time it takes to develop the implementing regulations for that to come into effect and the regulators actually to adopt it. So, I think it will provide us some considerable benefit in the long run.

This cleanup program is not going to be finished next year. We have several decades to go and it will help us considerably in the long run, and that is why I think it is a wise effort.

Mr. HEFLEY. Thank you very much.

Thank you, Mr. Chairman.

Mr. BATEMAN. Let me inject this before I recognize Mr. Sisisky.

I think Superfund legislation or reauthorization is very high on the agenda in this session. My premise is that it is going to entail more deregulation than the necessity for writing new regulations. And so, I would hope it would be looked at in that context to where it might, indeed, effect some economies for the Department of Defense as well as for private citizens who are taxpayers.

The other thing is, I would like to ask that you submit for the record, you and each of the Secretaries here, a memorandum outlining any recommended changes in existing environmental laws that you feel add cost not commensurate with any value or protection to the military personnel or to the public at large.

With that, Mr. Sisisky.

Mr. SISISKY. Thank you, Mr. Chairman, and, again, welcome to you all, and I say amen to you on the Superfund, if that indeed happens.

In the 103d Congress and, of course, even more so in the 104th Congress, many members of this committee have suggested that

there are too many nondefense programs in the defense budget. I happen to agree with them, as a matter of fact. But one of the things they keep talking about, the big dollar things, is in spending for environmental programs that should not be paid for in the defense budget. I mean I'm talking about large numbers.

I would like you to explain why, in your view, DOD's environmental activities are sufficiently related to national defense and that we should continue to fund them in the defense budget.

Now before you answer me, because of time limitations, let me also say that there is some talk about reducing the environmental funding in this year's defense bill, and I would ask, if you had to take a cut, how would you like to take it, in the overall or in parts? I'm not saying that that is going to happen, but I think we need to hear from you who are responsible in the Department of Defense on how this relates to our defense activity.

And before I close, again, I would ask Secretary Walker just a very simple question. Is it very expensive to clean up artillery ranges that have been in existence for over 50 years?

Mr. WALKER. Sir, generally speaking, that is a very costly process of cleaning up ranges. They vary, of course, the size and the history of the use, but generally speaking it is because of the detection and all the safety considerations.

Mr. SISISKY. I need to talk to you about that because in the Base Closing Commission of Fort Pickett you have no environmental impact, and I've got news for you, you may be left with an artillery range. But that is another dime. You don't know that yet, but you may be left with that.

Ms. GOODMAN. Mr. Sisisky, the best way I can answer that question is to refer again to the chart on Norfolk Naval Base and what happens, if we could put that up again.

What we do on our military installations related to environment is day-to-day business, it is nothing exotic. As I said, our installations are small cities, some of them approach the size of large cities, and they are large industrial organizations. Just to run a city you need to have a waste water treatment plant, you need a sewage treatment plant, you have underground storage tanks that hold fuel, you have to manage the hazardous materials that come from our industrial operations on your flight line; maintaining ships, we use lots of solvents and other materials; we have to manage those hazardous materials. So this is really just to keep the doors open on a base. You have to do things that are very common sense. It is like utilities, much of this. Just to have a powerplant that has a lot of environmental factors associated with it, and, in addition, our weapons system acquisition programs, building missiles, aircraft, ships, tanks—that is, 80 percent of the hazardous materials that DOD generates is associated with those weapons systems. That is what we are in the business of doing, having weapons systems to fight wars.

So, we are going to continue to maintain our weapons systems, and in the future to modernize them. To do that responsibly, and also to do it affordably, we need to understand what those hazardous materials are and, to the best of our ability, design them out of the weapons systems.

These are all functions intimately related to what the Department of Defense does on a day-to-day basis, and, of course, it is also about quality of life, providing those who live, work, and play on our installations the same protection that the rest of America enjoys. I know you want to provide our American service men and women and their children with that quality of life.

Mr. SISISKY. I would also assume that we have to do this sometimes by court order or face a court order. I know we have to clean up rivers, believe it or not, that we messed up where naval installations are and we have to do other things that we are required to do by law.

Ms. GOODMAN. That is right, we are required by law, and I showed you the chart that showed the growth of environmental laws. We are subject to all of those laws—Clean Air Act, Clean Water Act, Resource Conservation Recovery Act, Superfund—and most of those laws today do involve penalties that can be imposed and have, in some cases, been imposed on the Department of Defense for failure to comply.

I believe that the funds requested by the Department of Defense in 1996 which are lower than what was requested last year—our cleanup request is actually lower than last year—is what the Department needs to manage and do these day-to-day functions. This is essential to continuing our operations at our military bases and much of it, virtually all of it, is required by the law.

Mr. SISISKY. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Sisisky. Mr. Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman.

I have a question for you, Madam Secretary. Your testimony discusses using a relative risk approach to prioritizing the Department's cleanup work. With the cuts in recent years to DERA budget requests and the pending rescissions to this year's budget, are there instances in which some work at high relative risk sites will have to be postponed? If so, can you give me some examples?

Ms. GOODMAN. Thank you, Mr. Ortiz.

As you know, the Congress is contemplating rescission of money from the DERA account for 1995. The House has proposed \$150 million; the Senate has proposed \$300 million. That will impact our ability to meet our legal requirements in 1996 and in 1995. I would like to ask each of the military departments if they would be able to give you an example from their own operations of high-risk sites that we will not be able to undertake.

Mr. WALKER. Just two quick examples, Mr. Ortiz. One is at Aberdeen Proving Ground with a \$150 million cut. We will reduce a cleanup—an actual cleanup project there by nearly \$10 million, and it is right on the edge of the Chesapeake Bay. We do monitor to make sure that we have it. Another example that will be in the \$150 million cut will be at the Long Horn Plant in Texas, another nearly \$10 million of an old landfill. So those are some.

If it goes to the \$300 million cut, one of our serious problems will be reducing our effort at Rocky Mountain Arsenal, which I'm sure is a concern to many. We are trying to review our budget to make sure that we always address the worst concerns.

Ms. KANDARAS. Thank you very much.

What I would like to tell about is what the Navy has done in assessing its various sites. We have rated them according to this high, medium, and low risk, and at looking what a \$300 million cut to 1995 would do to us, we said let's not rescind contracts which we have already issued. And so, taking the projects that are left, we said we don't do the low risk that are assigned to this year's projects, we will cut out the medium risk, but still with our portion of that cut that wasn't enough, and we had to go into high-risk categories as well.

One of the ones that are in that high-risk category is at the supply center at Pearl Harbor. We had \$2 million planned for September 1995 award. The contamination is heavy metals, and it hinges on a land transfer back to the city. We are concerned about the postponement, and we know that these cuts have very real impacts on the overall program and, more importantly, to the communities to which we are neighbors.

Mr. MCCALL. In the Air Force we are faced with the same problem. We are going to cut our low-risk sites, we are going to cut our studies, and we found that even with making those cuts we are going to have to cut some high-risk sites.

We are talking to the Air Force Materiel Command right now, because that is where our big logistics centers are, like McClellan Air Force Base, Hill Depot, and Tinker Air Force Base, and we are trying to determine exactly where those cuts will be. I can predict that you are going to see probably cuts at McClellan and possibly other places. We haven't made an absolute determination yet.

Mr. ORTIZ. I just have one more question, Mr. Chairman.

Do you feel comfortable that some of the sites that we are cleaning up will be able to be reusable and be productive, or do you find that there are some sites that we will just never be able to use again?

I didn't mean to put you on the spot, but I see where we are spending a lot of money, and some of my colleagues have said they feel that we are spending too much money trying to clean up an area where we know we will never be able to use it again. I just want to know whether they are correct or not.

Ms. GOODMAN. Mr. Ortiz, we do have some types of contaminants today where we do not have a cost-effective technology for cleanup, and the best example is probably the ranges where we have ordnance and explosives. Today, we manage those ranges primarily for safety reasons. We want to make sure that if somebody wanders out onto the range they don't get killed. That happened in California a few years ago when some children wandered out onto a range and were killed when they stepped on an old munition.

So we manage it for safety reasons, but we do not have a technology today to detect or clean up most of our ranges which is why, first, we need a technology development program to allow us to improve these technologies, and, second, we will not today be able to use them for unlimited use in many cases, as in Rocky Mountain Arsenal and at Fort Meade we have made these ranges into wildlife preserves. They are suitable for animals, but they are not suitable for unlimited human use because of the safety issues involved. And I would ask Mr. Walker, who has many of these in the Army, if he wants to add anything to that.

Mr. WALKER. I might point out that a good example is the Rocky Mountain Arsenal. We studied the many uses there, and it came up that the likely use in the area would be most beneficial to have a wildlife preserve. We can clean it up to make that safe and protect the public off site at the level of about \$2 billion. To make that purely unrestricted use would go to \$4 billion or even more. So the value added of any difference in that is not there. So we decide on the particular use and try to make it safe for that purpose.

We do have an example under the recent base closure at Sacramento Army Depot. That entire depot has been turned over to an industrial use, and I think has a potential of creating about 5,500 jobs in the area. It is our first base closure where we have turned over an entire base, which was done on March 3. So that is an example where we get cooperation. It had all the elements of the fast track working, and on March 3, we turned that over to Packard Bell with the potential of creating about 5,500 jobs in that area.

Mr. ORTIZ. We thank you, Madam Secretary and members of the panel this morning, for answering these questions in a very candid way.

Thank you very much.

Mr. BATEMAN. The next member to be called on for questions is the gentleman from Guam, Mr. Underwood. He was the first member here after the fall of the gavel.

Mr. UNDERWOOD. Thank you, Mr. Chairman, and thank you all for your testimony.

There has been a series of points made about a commonsense test in terms of environmental cleanup. I know that you are suppose to clean up the facilities in conjunction with the States and that State standards in some instances, as has been pointed out, are perhaps more stringent than Federal standards, or perhaps they are demanding more.

For my edification could you perhaps speak to the issue of how we can reconcile some of the points made under developing commonsense tests for cleanup standards versus State standards versus existing standards?

Ms. GOODMAN. Thank you, Mr. Underwood.

The commonsense answer goes back to the responsible reform of Superfund as was discussed and almost passed in the last session of Congress. One, we need to be able to focus on future land use so that we are designing cleanup remedies to fit with the actual reuse of the property; and, two, we need to be able to move away from the current presumption for permanently treating all of all wastes. We need to focus that presumption on our hot spots but not necessarily on all sites.

As to the difference between Federal and State standards, current Federal law presumes most cleanups will occur to a residential use standard. Most State laws have the same presumption, and sometimes State laws go further because States are involved in protecting the natural resources whereas the Federal law, Superfund's protection, has to do with health so its standard is based on the likelihood of getting cancer. It is a health-based standard. In addition, States will have standards that go to protecting the resource, the water. For example, California has a State

law that says its water resources will not be degraded. Other States have similar laws.

Those two presumptions combined together can be very difficult for us to meet. What it involves in some cases is, we have to prove the negative. We have to prove, in fact, that we cannot return a particular parcel of property to a pristine condition because it is just not physically possible.

How do we get the common sense into this? I think we start and you start here with responsible reform of Superfund. That is one that continues to protect human health and the environment but recognizes that there are more commonsense ways, as you have mentioned, future land use being a major one, of getting there.

As far as the States are concerned, they are important players in this. I believe we need to continue to respect their role, and I think that as the Federal Government acts, many of the States, will look at what has happened and will enable us to more responsibly manage that.

Mr. UNDERWOOD. I am also interested in the fact that you favor parceling out some of the those NPL State sites, because many of the bases that are on NPL sites have some sites on them that need to be dealt with but are impeding activities on other things, especially relative to joint use or turnovers to local communities, and that is a particular problem that I have confronted.

On the rescission package—I'm interested in the fact that you have shown, starting in 1994, that you are spending more funds now on cleanup than on investigation. And you have indicated that under the rescission package some of these investigations will now be put aside.

I'm curious as to, I think it is 18 percent of the total DERA funding will be spent on investigations. At what point do you think that would bottom out, and what are some of the priorities that you are going to attach to decide which investigations are going to go forward?

Ms. GOODMAN. Let me say with the rescission proposed it is not only investigations that are going to stop, it is real cleanup work that is going to stop at real places. As Mr. Walker, Ms. Kandaras, and Mr. McCall described to you, it is real projects of moving dirt, and in 1995 at a \$300 million rescission there are going to be some high-risk sites where work is stopped as well.

As to the proportion of cleanup versus investigation in the overall DERA account, I think the ratio that I showed you of approximately 70 percent to under 20 percent is about right. You don't want to perform surgery before you diagnose the illness. That is why we always need to have some level of investigation capability in the program so that we can sink a well and see what is in the ground before we put the higher-cost bulldozer in to move the dirt. That only makes sense.

Let me give you a specific example. In Alaska, in which we have hundreds of thousands of 55-gallon drums—we used Alaska as a World War II dumping ground—now we are trying to clean up some of that contamination. In one location we have over 100,000 55-gallon drums that were plowed into a hillside called Barrel Bluffs. The Air Force went there to try to figure out how to clean that up. Its first remedy—which was to remove all the barrels from

this big bluff and transport them back to the lower 48 States because Alaska has no permanent hazardous waste landfill—was going to cost \$70 million. When the Air Force did a little investigation, it found out that it could design a remedy that would cap most of those barrels in place, because their contaminant levels were relatively low, for \$3 million. Now that was a good investment of investigations and analysis. That is something that we should continue to be able to do in the program. That is why I think the level I showed you is about right. I don't think you are ever going to see that level going to zero.

Mr. UNDERWOOD. Mr. Chairman, perhaps the answers are a little more comprehensive than we would expect, so if I could just be allowed to make one minor point.

Mr. BATEMAN. If you could do it very quickly because the gentleman from Mississippi needs to have an opportunity.

Mr. MONTGOMERY. I would be glad to yield to the gentleman.

Mr. UNDERWOOD. Thank you, Mr. Montgomery.

Mr. MONTGOMERY. Not all my time though.

Mr. UNDERWOOD. You know, I'm very sympathetic to the issue that sometimes some Members have put up a dichotomy between environmental spending and readiness in an attempt to try to force a choice, or try to present that there is a choice to be made there, and I'm not persuaded that that is a point of view that I can accept. I would have to say that as a general comment all of you have to make a stronger case. I know that you have attempted to do so today, but I think you have to make a stronger case that there is a close connection between environmental spending and readiness and the war-fighting capacity of the military. I think Admiral Mackie contributed to making that point when he was in front of the full committee a couple of weeks ago. But somewhere along the line that message has not yet been fully accepted by many. It has been accepted by me, but I just wanted to advise you that I think that case needs to be made stronger.

I also would like to submit for the record a communication from the Pacific Study Center.

Mr. BATEMAN. Without objection, we will be happy to receive it. [The communication follows:]

Pacific Studies Center

222B View Street Mountain View CA 94041 USA

415/961-8918 or 969-1545 Fax 415-968-1126

WRITTEN STATEMENT OF LENNY SIEGEL SUBMITTED TO THE HOUSE NATIONAL SECURITY COMMITTEE

MARCH 24, 1995.

My name is Lenny Siegel and I am a neighbor of Moffett Field, California. I work with community groups, across the country, concerned about the impact of military hazardous waste contamination on the health of their families, the integrity of their natural environment, and particularly where bases are closing or downsizing, their economic future. I am asking that this written statement be included in the hearing record because I think it is essential for Congress to hear from the people whose lives are directly affected by its decisions. I hope that state and community representatives will be invited to testify at all future hearings on environmental security.

Today I offer six simple principles for you to consider as you review progress in Defense environmental programs. I focus on cleanup, not because I believe compliance, pollution prevention, or conservation are unimportant. Rather, it is environmental restoration that is testing the commitment of the White House and Congress to meet its obligations to the American people.

- The Federal government has a moral and legal obligation to clean up its own messes. Cleanup budgets may be subject to change, but environmental restoration itself is not discretionary. I recognize that federal fiscal realities are forcing cutbacks in a large number of programs, and I expect cleanup to absorb its share. However, rumored, disproportionately large reductions would indicate that Congress thinks the Federal government is above the law.
- Given current budgetary realities, I support the Defense Department's proposal to annualize the cost of cleanup at active bases. That is, estimate the long-term cost of cleanup. Set a goal for program completion. And provide a steady budget to meet that goal. Without such a

mechanism, neither the public nor their state governments will believe that the federal government is prepared to meet its obligations.

- At closing bases, funds should be fast-tracked so cleanup is completed, or—for contaminated groundwater—remedies are in place by the time the bases are slated for closure. That is, budgets should be annualized over a much shorter period. Presently, funding shortfalls are delaying proposed accelerated actions at some closing bases, such as the Hunters Point Naval Shipyard in San Francisco.
- Translating the annualized budget approach into viable numbers at hundreds of installations requires close consultation with the states, Indian nations, and local communities. Despite cuts in overall funding, programs which facilitate those partnerships should receive continued support. These include the Defense State Memoranda of Agreement (DSMOA's), which fund state oversight, technical assistance to Indian nations funneled through the Administration for Native Americans, and support for community-based Restoration Advisory Boards (RABs), which are still awaiting the technical assistance promised in legislation last fall.

I applaud the Department of Defense's efforts to involve local stakeholders in the cleanup process through RABs, and I invite members of Congress to visit RAB meetings in their home areas to experience, first-hand, the new spirit of cooperation. We are concerned, however, that the Defense Department has thus far been unable to offer technical assistance for RAB participants, so we ask Congress to work with the Defense Department and the public to clarify the FY95 Underwood-Kohl Amendment, which is supposed to offer independent technical support to community members of RAB's.

- Cleanup at most Defense Department facilities is feasible with existing technologies, but new technologies may make cleanup better, faster, safer, or cheaper. I ask that technology development and demonstration funding, particularly for unique military environmental problems, be retained as an investment in long-term cost reduction.

- One of the Environmental Security office's greatest challenges is to demonstrate that cleanup expenditures are making a difference. I don't think the problem is too much study, but an entire approach to cleanup—inherited from intrinsically adversarial civilian cleanup programs—based upon paperwork. Success is measured by the acceptance of "deliverable" documents, not the completion of real world actions. I have proposed an *activity*-based system, in which:

1. Instead of ranking the relative risk of sites, government agencies and outside stakeholders evaluate the risk reduction effectiveness of proposed *activities*.
2. In setting priorities at the local and national level, risk reduction and other factors for each *activity* should be considered.
3. In determining how clean a site should become, all parties should consider the marginal cost and effectiveness of each *activity*.

Lenny Siegel is Director of CAREER/PRO (the California Economic Recovery and Environmental Restoration Project) a project of the San Francisco State University Urban Institute. He is also the director of the Pacific Studies Center, a Mountain View, California-based non-profit library and research center that monitors the U.S. military and high technology industry.

He is one of the environmental movement's leading experts on military base contamination, and he has worked as a consultant to the Military Toxics Project, Physicians for Social Responsibility, and the Friends of the Earth Appropriations Project. His clients also include the RAND Corporation, the Council of Energy Resource Tribes, the Kaho'olawe Island Reserve Commission, and Rockefeller University's Program for the Human Environment. This Spring he will be a guest instructor in the Urban Planning Department at the University of California at Los Angeles.

He is a member of US EPA's Federal Facilities Environment Restoration Dialogue Committee, the Subcommittee on Waste of US EPA's National Environmental Justice Advisory Committee, the Working Group on Military Bases of the Western Governor's Association DODT (Demonstration of On-Site Innovative Technologies) Committee, the California Base Closure Environmental Advisory Committee, the External Review Group of the Air Combat Command's Project on Variable Oversight, and the Moffett Field Restoration Advisory Board.

His recent publications include *Covering The Map: A Survey of Military Pollution in the United States* (May, 1993) and the *Citizens' Guide to Military Base Clean Up and Conversion* (September, 1993). He edits the *Citizens' Report on the Military and the Environment*.

Mr. BATEMAN. I recognize the gentleman from Mississippi, Mr. Montgomery.

Mr. MONTGOMERY. Thank you, Mr. Chairman.

To Ms. Kandaras, on the base closure in the Navy, those who decided what bases would be closed and realignment, did you have any input into that situation, or did they ask you for input about the environmental standards of each base that they were looking at?

Ms. KANDARAS. Elsie Munsell, who is our Deputy Assistant Secretary for Environment and Safety, was a member of the Base Structure Evaluation Committee [BSEC], and those considerations were part of the data base after all and were considered. But it was not, as I understand it in reading the reports, part of the final considerations of which bases to keep open and which to close.

Mr. MONTGOMERY. What you are saying is—was it a consideration or not, whether the base was clean or not? Did that come into the equation?

Ms. KANDARAS. It was characterized to the extent that we had information at the time. As you may be aware, many of our closing bases do not have NPL sites, they have minor contamination which must be addressed before the properties can be turned over. And so, in many cases, the investigations are just beginning in the depth to prepare for some cleanups, and very preliminary information has been gathered in some instances.

Mr. MONTGOMERY. Mr. Chairman, I'm concerned. I guess I have mixed emotions. If a base is hard to clean up like some that have been mentioned here today, they might have to stay open because it costs too much money. In my particular area, we have a very clean base and it was put on the base closure list. I worry about that because it is easy to clean up and doesn't cost a lot of money, and then you can turn it over to somebody. We don't want to turn it over to anybody, we want to keep it.

Mr. BATEMAN. I understand the gentleman's point, and it is one of the ironies that if you have been good and you are clean you may find yourself at a disadvantage, which brings me to a question I wanted to pose about State law as it relates to the operation of defense bases and their closure.

States are possibly capable of passing State laws which would be binding upon Federal facilities as a defensive measure to a base closure. If they require some excessive or undue standard that imposes incredible costs, they may see it as a defensive measure to a defense closure that might come. This leads me to wonder whether or not Federal military installations should not be subject only to the environmental laws of the United States and exempted from those of the several States that are more stringent than those of the United States. Do you have any views on that?

Ms. GOODMAN. Mr. Chairman, it has been a general principle of Federalism in our country that there are certain powers that are reserved to the States, and some of those go particularly to the area of protecting the natural resource that is the land of that State. I think we need to continue to recognize that.

Now I think there are cases where a State law may be more stringent than a Federal law and inequitably applied to the Federal Government. I think there we should be able to challenge it.

I think that, particularly in this current climate where a lot of authority is being given back to the States, we need to think very carefully about what authorities we would ask to be taken away from them.

I think we can ask for responsible regulations and challenge regulations where we are inequitably treated, in other words, where a standard would apply uniquely to a Federal facility and not to other activities in that State. But I do think we need to respect the authority of the States to address all activities in the State of which we are one, provided they do so evenly for all activities in that State.

Mr. BATEMAN. Fine. I have overlooked the fact that the gentleman from Mississippi has some more time if he chooses to use it.

Mr. MONTGOMERY. Thank you, Mr. Chairman. I will yield back my time.

Mr. BATEMAN. Next is the gentleman from Florida, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

I thank you all for your excellent testimony. I understand it is important that we discuss this whole process here today, and I was interested in the linkage that you made, Madam Secretary, on the readiness, quality of life, and the modernization issues. But going back to what my colleague from Virginia has suggested on the budgetary issues here and was reiterated by Mr. Underwood, I think it would be remiss of all of us if you left the table here today, the four of you, without making your absolute best case for that linkage, and the linkage that environmental issues and funding have, at least in the vernacular here, has been nondefense. If there is anything we do here today, it seems to me that we must have something on the record that would demonstrate that environmental funding as we go through the budget process here and the authorization process, that that is indeed defense money. That is my view.

I think you make this case very well, but without that funding—and maybe you can comment on this—does not that base close? Don't you essentially shut the gates? This isn't just about cleanup, this is about everyday operational capability, it seems to me.

You can use all the rest of my time, and I would like to hear from all four of you. To make your best case as to the link as it applies to nondefense expenditures for environmental activities among the services.

Ms. GOODMAN. Well, you are absolutely right, Mr. Peterson. I thank you, and I am going to say a few sentences and then turn to my colleagues.

Let's start with the connection between environmental security and readiness, and I will ask each of you to give a specific example. But the one that comes immediately to my mind is in California at Camp Pendleton—a major Marine Corps operation there—the Marines have actually created some habitat for an endangered species. Now you ask yourself, why would they bother to do that? Well, they did that because by actually increasing the number of this endangered bird on their military installation they preserve complete access to that base for the Marine training areas. If they had not done that, they would have been constrained in their ability to use

that land. So, that is an example of how proper protection of the environment and good stewardship helps us maintain access to the air, land, and water that we need to train and test.

Quality of life—an example is lead-based paint. We have a lot of barracks on our bases around the country that have lead paint in them because they are old and that is what we used in the past in this Nation. We have a lot of children who live on our bases as well, and childhood lead poisoning is a major cause of debilitation among children in the United States today. We have a very aggressive program to protect children from lead poisoning by monitoring our older barracks and other units.

Third, is modernization. This is just common sense and good business. As I said, we generate a lot of hazardous materials in the weapons systems acquisition process. Through better management of those we have saved hundreds of millions of dollars at our bases just by simple operations like the pharmacy where we manage our hazardous materials like you would manage drugs from a drug store. You only give out what you need, and then you get back what you don't use. It has saved us millions of dollars, and if we had not had an environmental program that allowed us to think about that, we would not have been able to avoid those costs. And, you correctly point out that without the waste water treatment plant or the sewage treatment plant at Norfolk or the powerplant we wouldn't have an operating facility.

Mr. BATEMAN. We want to hear from you fully, but bear in mind that we do have another panel and you will need to abbreviate your answers, if you can, without failing to make your points.

Mr. WALKER. Readiness is very important, we realize that, but a quick example where it is complementary is the amount that we spend on our conservation programs, particularly our training ranges. I'll just give one quick example. Reseeding—through our conservation efforts we have cut down erosion and gulling. We have maintained it so that tankers out there can have an opportunity to breathe all right, because we have had an overused training range that got so damaged once that it stirred up so much dust that they wear gas masks to breathe. We moved in there with a sound conservation program, like reseeded and rotation, and now they have realistic training. So that is an example of purely adding value to the training and readiness by an environmental program.

On the other side you can say that if you don't abide by the laws it will shut an installation down. In Virginia we had to close Radford Army Ammunition Plant for a few days because the commander was going to be out of compliance, and so we shut it down. That's our ammo propellant production, and so that hurts readiness. So you have the business aspect too of staying within the law.

Ms. KANDARAS. Secretary Goodman gave an excellent example of the Marine Corps' contributions to readiness. Let me talk about the Navy's side for a moment, and about the pollution prevention area. In Jacksonville, the Naval Aviation Depot runs as a competitive business to try and keep costs down for the work that they do. In the pollution prevention report to me, their theme is the nineties margin for corporate survival. Pollution prevention is their way of keeping down the cost. They go on to say that between 1989 and 1994 they provided 13 projects with an investment—and I under-

score the word "investment"—of \$20 million for pollution prevention that reduced pollutants by 1.6 million pounds, saving \$5.3 million a year. It had a payback of 3.5 years. Being able to save these kinds of dollars goes right to the bottom line of those O&M accounts which are the guts of our readiness through training and other sorts of support for our forces.

Mr. McCALL. It is not only money saved, it is safety. We need to find a replacement for Halon 1301. That is a fire suppressant in all aircraft and all Navy ships. The great thing about Halon 1301 is that it doesn't injure humans when you use it. The difficulty is that it destroys the ozone layer. So what we have got to do is come up with a replacement.

The Air Force, in conjunction with the other services, Boeing, and major industrial corporations across this country at our Wright-Patterson laboratories is developing a repl laws it will shut an installation down. In Virginia we had to close Radford Army Ammunition Plant for a few days because the commander was going to be out of compliance, and so we shut it down. That's our ammo propellant production, and so that hurts readiness. So you have the business asound the world. That is a benefit that hits us, and it helps America too.

Mr. BATEMAN. Great.

The gentleman from Virginia, Mr. Pickett.

Mr. PICKETT. Thank you, Mr. Chairman.

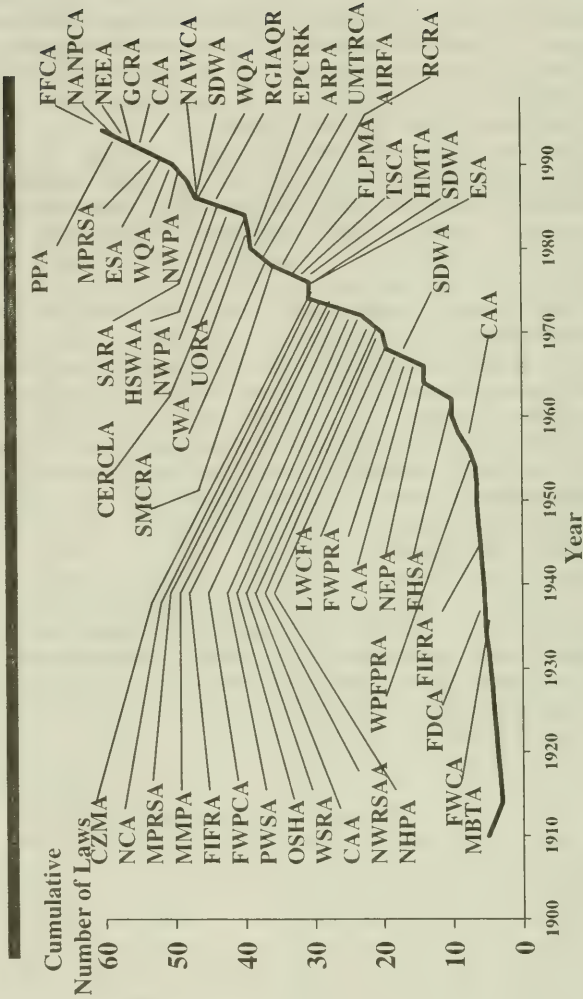
Ms. Goodman, I wonder if it would be possible to get a copy of the chart that you displayed with the alphabet soup of environmental laws on that. I would like very much to have a copy of that.

Ms. GOODMAN. Certainly, Mr. Pickett.

[The chart follows:]



Federal Environmental Legislation



Environmental Security -- Defending Our Future

Mr. PICKETT. One of the issues I have learned from experience that has been a problem, particularly at our military installations, is the fact that military construction projects take anywhere from 3 to 10 years to get implemented, and in many instances the environmental requirements in the intervening period of time are being changed by local governments and State governments so that a very well planned project, by the time it is completed, is out of compliance with State and local requirements.

Can you tell us where we are with this, whether we are anticipating these kinds of changes and incorporating them into the new designs or whether we are finding increasing incidents where projects are being completed but by the time they are completed they are out of compliance with either State or local regulations?

Ms. GOODMAN. Mr. Pickett, we do our best to work closely with the regulators so that as we design our military construction projects we understand—

Mr. PICKETT. But you did not follow and document this. Is that the answer?

Ms. GOODMAN. We are required to follow both Federal and State laws and, therefore, what we try to do first is to prevent the pollution in the first place so that it is not part of whatever we are doing. And that is why we have focused very much on reducing the hazardous materials in our process.

Mr. PICKETT. Let me see if I can rephrase it. Is there an ongoing program by the Department of Defense or the military departments to cooperate with local and State governments on this setting of designed criteria and requirements so that the military departments are kept abreast and can keep their military construction projects current with these changing requirements?

Ms. GOODMAN. Yes, and let me also say what happens, Mr. Pickett, is, once we obtain the permit that is needed, that locks in the standard, so we apply for a permit in conjunction with the project. Once we have that permit, our standard then is fixed by that permit.

In addition—and I'll turn then to Ms. Kandaras—in some areas we are seeking to have national standards; particularly the Navy is seeking a national standard for ship discharges as one that would enable the Navy both in Virginia and in our other States to be able to design its ships to meet one uniform standard for discharges from ships.

Mr. PICKETT. Is legislation required in order to be able to do that?

Ms. KANDARAS. Yes, it is, and we are hopeful that through the Clean Water Act this may be addressed. But we may need to seek some assistance from this committee as well.

As you can imagine, as we design technology for ships to have a broad range of the requirements from State to State it is a very difficult target to hit. What we are seeking is, in fact, a single national discharge standard which we have been working very closely with States and other stakeholders on to make that determination. It allows our research and development then to target the kinds of technologies required to meet that standard.

Mr. PICKETT. Getting back to the point raised by the chairman about the national standards versus local and State standards, I

imagine the Air Force would be concerned about its airplanes that fly all over the different States and the Army operating different trucks and things in different areas. Should we be looking at having national standards for military equipment?

Ms. GOODMAN. We have looked primarily at national standards in the context of not in the type of equipment that we use but in the type of media that we are talking about.

For example, the Navy is looking at discharges from ships into water as an area where, under the Clean Water Act, that might be amenable to a national standard. I also think reform of the Superfund law—and some of the comments I made earlier—will move us more toward national standards for certain types of contaminants, and the Clean Air Act passed a couple of years ago now does have a national standard for tactical vehicles in the military.

Mr. PICKETT. What about aircraft?

Ms. GOODMAN. It does include aircraft as well.

Mr. PICKETT. Thank you.

Thank you, Mr. Chairman.

Mr. BATEMAN. The gentleman from Texas, Mr. Tejeda.

Mr. TEJEDA. Thank you, Mr. Chairman, and I thank the panelists for their testimony.

Some of the questions I had have already been answered, but I do have one question that I would like all of you to respond to.

The services in some areas—you have heard of cross-servicing and interservicing, and I'm just wondering if the services are working together in common areas to achieve the same goal. For instance, I'm aware that the AFCEE—the Air Force Center for Environmental Excellence—is doing some very valuable work for the Air Force. Is the Air Force working with the Army and the Navy to share data, input, and any research? I guess we'll start with Ms. Goodman.

Ms. GOODMAN. Thank you.

Yes, we try to do as much of that as we can. Each service has an environmental center. You noted AFCEE. The Army has the Army Environmental Center at Aberdeen. The Navy has a center at Port Hueneme in California. I have asked the commanders of each of those three organizations to be sharing their technology development ideas and their other best practices. Within that, the engineers in all those organizations do meet routinely.

I think there is always room for improvement, but it is an area where we are already sharing quite a bit and cooperating. We have a number of technology development projects underway today that involve more than one service because our environmental challenges are not service specific, they cut across all military departments.

I also mentioned earlier the regional environmental security executive agent concept where we now work in each EPA Federal region by service so that in that region, for example, in Texas the Air Force is the executive agent for that region and coordinates among the services to bring the best ideas together.

Mr. MCCALL. Let me follow up on AFCEE. Just 2 weeks ago, AFCEE hosted the Army Environmental Center and the Navy's counterpart, and the three centers are going to work together to find more commonality in how they do work.

A second example of where we cooperate is in our natural resource management program. Army has the overall lead for ecosystem management. The Air Force is taking the lead on developing the tool for natural resource management that goes into that and on the group that is looking at that is strong Navy representation, strong Army representation. So we are building this program together. It is a very low-cost program. It will make the management of our natural resources even better than it is today.

Ms. KANDARAS. I mentioned earlier how the Navy built its budget for its cleanup program. We used an Air Force model to help assess what those cost projections should be, and we feel that being able to show some comparisons of apples versus oranges will be very helpful to us in future programming.

Mr. WALKER. Just a quick example, sir. In May, the Army Environmental Center is sponsoring a technical workshop with all of the other services to look at the technologies available in cleanup, compliance, and pollution prevention.

Mr. TEJEDA. Thank you.

Thank you, Mr. Chairman.

Mr. HEFLEY [presiding]. Mr. Abercrombie.

Mr. ABERCROMBIE. Thank you, Mr. Chairman.

Secretary Goodman, I have here a series of what would be slides. This is written representation of slides on the assessment of the conservation program. We have the Legacy Program out in Hawaii. Unfortunately, when I inquired about it to the DOD, to the CINCPAC out there and got a response back from the General Services Administration, I got no information. Now I don't know if there is a glitch in communication between the DOD and CINCPAC out there, but something needs to be done.

When I asked for complete information I got back—this is the sum and substance of what I got back. "The slides are aimed at showing the importance of the Legacy Program." I already know that. "And the projects funded relate to military training areas and thus readiness." I know that. That is why I asked the question.

To date the services have not received any fiscal year 1995 funds. They say they don't know where the money is. This is an answer on behalf of the DOD. They don't know where the money is. But, quote, "I suspect it is still at the DOD comptroller or in the rescission package." Then it goes on to say, "The Legacy Program make-up funding for the DOD Conservation Program, because all the attention and funding traditionally go to those areas that are out of compliance or have to comply with regulations, i.e., pollution prevention, the projects in the slides are examples of the projects underway because of legacy funding." I know all that. Despite what some think, members of this committee are not simpletons.

Do you consider that a responsible and responsive answer to an inquiry about the status of the Legacy projects in Hawaii?

Ms. GOODMAN. Mr. Abercrombie, if you provide me your questions I will be happy to rapidly get you an answer in full to all of them. And let me say with respect to the funding for Legacy, in 1995, it is in jeopardy as a result of the threat of the rescission of 1995 funds.

Mr. ABERCROMBIE. I understand that.

Ms. GOODMAN. So to the part of the answer there, it is true that not all the commands, and Pacific Command among them, have yet received the money for the projects that we approved, and that is because with the threat of the rescission the money from this program has not yet been made available. But I would like to answer your specific questions, and we will do so very rapidly.

Mr. ABERCROMBIE. May I ask further then, would you consider that when I ask a question about the status of the projects to this point, that any member of the committee ought to expect to receive a report up to this point? The fact that there may be rescissions and the fact that there may be difficulty with the 1995 funding should not prevent anybody in the Pacific area from being able to give us a status report as of now, should it?

Ms. GOODMAN. No.

Mr. ABERCROMBIE. Thank you.

Now the information that I sent out there had to do with, for example, the Legacy Resource Management Program, which included such things as the military mission, the legal requirements, the Legacy objectives, the installation support proposals, et cetera.

Among them as an example, the Legacy Resource Management Program, it says native American activities, that is one. At another point there is an entire section devoted to native American—if you will just give me a moment. Yes, Legacy Resource Management Program, native American issues, and it includes such things as native American graze protection, Repatriation Act, National Historic Preservation Act, et cetera.

Now in Hawaii I have tried to get this across over and over again. You are dealing with native American and native Hawaiian. If this is not added, apparently we are going to have difficulties with this. I would like to have some observations from you, or perhaps an opinion, as to whether we need to have legislation that will specifically add native Hawaiian to native American or whether the DOD is going to consider the land native Hawaiian land as part and parcel of this Legacy Program with respect to native Americans. Because if it isn't, if the native Hawaiian land that is part of the Legacy Program and all the rest of it is going to be discounted in terms of any obligation with respect to preservation of the land and/or rehabilitation of land, we have got a serious problem.

Does the DOD consider native Hawaiian land in the same category, either legally or programmatically or both, as native American land and cultural obligations as embodied in the Legacy Program?

Ms. GOODMAN. It is my understanding that it does.

Mr. BATEMAN [presiding]. The gentleman's time has expired, Mr. Abercrombie. We have a number of other people.

Mr. ABERCROMBIE. Thank you, Mr. Chairman.

Mr. BATEMAN. I would invite members of the committee to submit questions to be answered for the record.

Mr. ABERCROMBIE. Thank you.

Mr. BATEMAN. I will be submitting a number of questions for the record in light of the length of the hearing, and we would ask if you would make every effort to respond to them within 2 weeks.

Mr. BATEMAN. The next member to question the panel of witnesses is Mr. Edwards from Texas.

Mr. EDWARDS. Thank you, Mr. Chairman.

Secretary Goodman, thank you for being here.

I have just one question. The BRAC process envisioned the Government getting quite a bit of money, billions of dollars, in fact, from the sale of former military bases that somehow we could use to support our defense needs and general budget. In many cases, the reality has been that we have given that property to local communities. Has there been any effort, to your knowledge, to have some sort of quid pro quo to a community through that process? If we are going to give you this property rather than selling it to you at market rates, then you must take on the responsibility or the cost of cleaning up the grounds of that base, or is that not legally possible?

Ms. GOODMAN. There are two points, Mr. Edwards. First is, you are correct that we have not received a great deal of revenue back from the sale of property to date, but the costs avoided from base closures, just the first three rounds, the Department estimates to be \$30 billion, so that is quite a good savings to have.

Second, some of the property—

Mr. EDWARDS. The cost avoidance—now you are talking about operational costs, you are not talking about cost avoidance—you are not talking about revenues coming in from the sale of that property, right?

Ms. GOODMAN. Right, but I'm talking about savings in the defense budget that will be put towards modernization in future years as a result of not having to pay to operate those closed installations.

Second, some of our property is sold. It depends on whether the property is sold for a price, and it depends on whether that property would actually command much money in the market. So we apply a market test where we would sell property for example, at Treasure Island in the San Francisco Bay area, we know that is a very valuable property that can be sold and revenues obtained. Other properties at closing bases in more remote locations cannot as easily be reused if the Department of Defense and the Federal Government demand that it be sold at a particular price. Therefore, we have ways of providing beneficial transfers at lower or less than market price.

Now, concerning the environmental aspect of that today, under today's Superfund law, Federal property cannot be sold until the cleanup remedy has been put in place and approved by the regulator, which means it is usually some period of time before that property can be sold by deed. It can be used under a lease agreement before then, which is what we do at many of our closing bases today, but this is an example of where today's law treats Federal facilities differently from private property.

In the private sector you can buy and sell contaminated property, and you treat the contamination as one of the risks, one of the elements of that sale, and price it accordingly. You cannot do that today under Federal law. That is one consideration that could be had under reform of Superfund this year, as to whether the time

has come to treat Federal property the same as private property for that purpose.

Mr. BATEMAN. Might I inject on that? Would the Department recommend such a change in the law?

Ms. GOODMAN. The Department would like to give fuller consideration to that. We do think that that would enable more rapid and more productive reuse of property at our closing bases. Perhaps Mr. Walker can give an example. There is one case where, by special legislation, one closing base has been able to be sold prior to that, and I would like Mr. Walker to give that as an example.

Mr. WALKER. We have allowed a buyer to do some cleanup, and we do find that at the cleanup of the Hamilton Air Force Base in the San Francisco area, it was considerable savings to let the buyer take over part of the cleanup. They were able to do that expeditiously, work very closely with the regulators, and come to some agreement, and they saved approximately \$2.5 million in that effort.

Ms. KANDARAS. If I may add, whether or not a base ended up on a list was made without regard to what its environmental situation was. That community who is receiving that base in one form or another must deal with what is there. The last thing we want to do is, in fact, give that community a double whammy by somehow holding up their reuse by whatever the environmental solutions might be. And that is why, at least speaking for the Navy, we have put a very strong emphasis on directing the environmental dollars in the BRAC account to what must be done to expedite the reuse of those properties for those communities.

Mr. EDWARDS. But I'm not talking about double whammy, I'm talking about double dipping. You know, if we are giving a community the free property plus we are paying to clean up the environment and considering the reality of limited BRAC dollars, Mr. Chairman, it seems we might want to look at legislation to allow a greater opportunity there. It might actually help the communities rather than having this land sitting in limbo for years and years because of limited BRAC dollars. We might be able to find better alternatives to clean up those facilities and move them into the private or public sector.

Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Edwards.

Madam Secretary, you indicated that you would like to give some more thought to the policy question as to whether or not Federal property should be treated as other properties. We certainly don't object to you and your colleagues in the Department giving it further thought, but could you think fast? We would like to have some answers before we have to start writing legislation, and we will write it better with your input than without your input.

Ms. GOODMAN. We will do our best to meet your schedule, Mr. Chairman.

Mr. BATEMAN. Thank you, and the next member is Mr. McHale, who will be followed by Mr. Bartlett.

Mr. McHALE. Thank you, Mr. Chairman.

Secretary Goodman, I arrived a little bit late because of another commitment and as I came into the room you were talking about unexploded ordnance, and you made specific reference to a tragic

incident in which civilian life was lost as a result of such an explosion. The line of questioning that I have for you really provides you with an opportunity to expand upon the developing technology and systems that we have in place for cleaning up unexploded ordnance. Some of the background material provided to members of the committee indicated that 8 percent of DOD sites have unexploded ordnance, and by the very nature of the ranges that are used for this type of material we are talking about extensive acreage in most cases. If you have a mortar range or an artillery range you are talking about thousands of acres.

Unlike other areas of environmental cleanup where I think developments in the civilian sector can be applied with equal effectiveness, in a military environment it seems to me—and correct me if I'm wrong—that with regard to unexploded ordnance that is almost uniquely a military challenge, and so my question to you—and I would urge you to be as expansive as you need to be, take whatever portion of my time you believe to be appropriate—is what kind of systematic approach do we have for cleaning up unexploded ordnance, and how is technology developing in that field? Is that an area, because of its unique military impact, where we need a greater level of governmental involvement in developing such technology?

Ms. GOODMAN. Thank you, Mr. McHale.

I believe unexploded ordnance, as well as some other unique areas, do require the Department of Defense to take the lead in technology development—unexploded ordnance, some chemical compounds, some types of painting and depainting, because the skins and materials we use on our aircraft and our ships are not always the same chemically as what is used in the commercial sector, and there are a few other areas that are DOD-unique where we really need to take the lead; otherwise, the technology will not be developed.

As I said a little earlier, in the area of unexploded ordnance we have quite a long way to go before we have cost-effective technologies to both detect ordnance and then to get it out of the ground. I would like now to turn to my colleagues in the military departments to talk about areas in which they have DOD-unique technology development efforts underway.

Mr. WALKER. I might point out, Mr. McHale, that 2 years ago Congress provided us money to do research at Jefferson Proving Ground which is quite heavily contaminated with unexploded ordnance. We have requested and surveyed some 30 vendors and their capability of detection, increased detection, some remediation aspects, and what we want to do in that effort is to make sure that our detection capability is such that when we do dig in the ground, we find that it is truly a munition and not clutter.

Mr. McHALE. Mr. Walker, on that point, is this an area where we would normally contract out the responsibility, or can the Department of Defense do it in-house?

Mr. WALKER. It is both, it is mixed, because we rely on the vendors to provide their capability. We have in-house capability. We have in-house capability also to make sure we do it safely. Dealing with unexploded ordnance is primarily a safety concern because it

is many times old and has to be handled very carefully. But we want to make sure that we do the correct definition if we find it.

We are also working with these 30 vendors, including five aerial techniques to see if a flyover could help us in regard to identification and treatment, because it gets back to the very old way of having to dig down, brush it off, and then deal with it very carefully. And we are trying to find better methods of clearing an area and more effectively involvement. So that is one area the Army has taken the lead in trying to get this detection capability and also faster remediation.

Mr. MCHALE. Just in three or four words, are we making progress in that area? Is this technology moving forward, or are we, in fact, almost in a static position where the technology has not changed very much over the last several decades?

Mr. WALKER. We are trying to find, and we are making progress in finding, equipment that is more remotely operated to do a better job. We have tested two areas at Jefferson Proving Ground. We are expanding that to five areas spread across the country, Air Force bases, Navy bases, and some Army bases, to use this technology in uncontrolled situations to see how accurate it is.

Ms. KANDARAS. Briefly, we have a Navy-unique problem in which our research has been concentrated on, and that is in the area of plastics on ships, and our labs have produced a plastics waste processor which shreds and melts plastics and keeps the volume down so that it can be stored easily on ships until we return to port for disposal. And that has been introduced and tested on some of our ships, and we will meet a congressional deadline by December of 1998 to have those on our ships.

Mr. MCCALL. I have two brief examples that are very important to the Air Force. They also have commercial application outside the Air Force. The first is a reduced metallurgical casting process. Ninety percent of the parts used in DOD are casting related. At McClellan Air Force Base we are working on getting pollution control devices so we can produce those and meet the clean air standards. Very important to DOD. It is also important to the Big Three. General Motors, Chrysler, and Ford want it. In petroleum cleanup, 34 percent of our sites have petroleum contamination. We are taking the lead in developing technologies that will bring in petroleum cleanup at 10 cents on the dollar when we develop these technologies and they get permitted. Cost savings to the Air Force alone will be \$2 billion we predict on our cleanup costs.

Mr. MCHALE. Thank you very much.

Thank you, Mr. Chairman.

Mr. BATEMAN. The gentleman from Maryland, Mr. Bartlett, and let me advise the members that we are somewhere within 5 to 10 minutes of a vote on the floor, and it would be my hope that we might hear Mr. Bartlett's questions and my colleague from California Mr. Hunter's questions, then we could excuse this panel. Any members are invited to submit questions for the record, and then when we return from the vote we would proceed with the second panel.

Mr. BARTLETT. Thank you. Thank you, Mr. Chairman, for convening this hearing, and thank you, witnesses. I'm sorry I wasn't here from the beginning.

Two of your testimonies—and perhaps it is in others—focus on a problem that I would like to get a response to. Ms. Goodman, in your written testimony talking about the BRAC closing you say that, “We need to establish cleanup teams and experts at closing bases. We need to make clean parcels available.”

And, Ms. Kandaras, in your verbal answer to a question you said that there were minor contaminations that must be addressed before the property can be turned over.

My question is, if these bases are environmentally okay, good enough for our young men and women in the military and for our civilian contractors, why isn't it good enough to give to somebody?

Ms. GOODMAN. That's a good question.

Mr. Bartlett, what we do when we transfer property is in some ways similar to what a private sector owner of property would do if he were selling or transferring property. What we do is document the environmental condition on those parcels before we give them to somebody else.

Now we have determined in BRAC rounds I and II that about 60 percent of the property from those two rounds is environmentally suitable for transfer either because it is clean, it has no contaminants, or because the contaminant level is sufficiently low that it can be transferred. And so, we have made that property available, and we provide with it the documentation. We call it an environmental baseline survey, and we do a finding of suitability to lease.

In the private sector you would do something very similar. You would call it a due diligence, and you would produce a number of documents that would allow the new owner to know the environmental condition of what he or she was getting.

Mr. BARTLETT. I understand we are doing this, but my question was, if it is good enough for our young men and women in the military, why isn't it good enough to give to somebody?

Ms. KANDARAS. If I might add, a part of that has to do with the use of that property and, in some cases, we are using property in a different way than the community reuse committee—

Mr. BARTLETT. But how about suggesting that they not look a gift horse in the mouth if we are giving it to them? You see, I don't understand our need to expend these multimillion dollars to clean up a base that was quite good enough for our young men and women in the military. Now we are going to give it away, and somehow we have to spend millions and millions of dollars before we can give it away. If you need legislation to bring some sanity to this process, then please let us know that. You know, if you are doing this because you think you are required to do it and you are not required to do it, then please stop doing it.

I have one more question, and that is, I don't understand why would we sell for less than market value? I understand market value. That is the most you can get for a property under the economic conditions at the time. Why would we ever sell a property for less than market value?

Ms. GOODMAN. There are certain laws, Mr. Bartlett, which today require us actually to give the property to, say, another Federal agency user or another State government if it—

Mr. BARTLETT. That I can understand. That is not selling.

Ms. GOODMAN. OK; there are some cases where the property cannot command a price. If it is in a remote location, we are just not getting a lot of interest.

Mr. BARTLETT. But that is market value. Why would we ever sell for less than market value? If it has no market value nobody is going to offer you anything for it, so then give it to somebody who at least will pay taxes on it because it will enter the tax rolls. The tax assessor thinks it has some value, whether we do or not.

Ms. GOODMAN. OK; then it may be just my poor choice of words. What I meant to say is that in some of our locations we can actually obtain a good price for the sale of our property, and I used the example of Treasure Island, California, a very valuable property near San Francisco, where of course there will be revenues obtained for the Federal Government for that property. That is not true in every location. Every location is not as desirable, because of surrounding circumstances, as Treasure Island is going to be.

Let me answer the other part of your question, if I may, which is, on our bases where our American men and women in the military are living and working we have environmental programs to clean up the toxic wastes that are on that base, and of course those programs, when the base closes, generally continue in order that that property will also be cleaned up for reuse by the community.

Mr. BARTLETT. I understand that, and I think everyone would, but it is my impression that we go far beyond that.

Thank you very much for your expression of willingness to cooperate with us in enacting whatever legislation is needed to bring some sanity and big, big cost reductions to this part of your activities.

Thank you, Mr. Chairman.

Mr. BATEMAN. The gentleman from California, Mr. Hunter.

Mr. HUNTER. Thank you, Mr. Chairman. I thank the witnesses for being here.

Secretary Goodman, I read part of your statement and I looked at the numbers that we spent for environmental cleanup in DOD over the last 10 years, and it is shocking. I mean you have spent about three or four pages in your opening statement talking about how we all love the environment, and platitudes about how keeping the environment in a good state is part of the military mission and should be desired by every soldier and sailor, and we want to be safe with our young people, et cetera, but then I look at the budget numbers, and if this was a weapons program that a contractor was doing we would be flailing this weapons contractor for having a bloated budget, for having monster overruns, and we would probably cancel the program.

In 1984, according to CBO, we spent \$213 million on the environment out of the DOD budget; in 1994, \$5.5 billion. We have had a cost overrun of about 2,500 percent, 25 times as much as we were spending 10 years ago. Now 10 years ago we had Superfund, we had the Clean Air Act, we had the Clean Water Act, and presumably we were 10 years into what you would call the environmental programs. We had good strong prosecution of people who violated those things, and we had good strong programs running in all the States, and your program for this system which involves, incidentally, many of the same contractors who made weapons systems for

us, if they had a 50-percent overrun we called them greedy government defense contractors and we would be here whipping away at them when they talked about their weapons system. They have gone into the environmental business, and in many cases we have got nothing but paper. For a long time half of our costs simply went into reports, paper for those shredders, and we have had these monster overruns.

Now to what do you account this 25 times as much money being spent on environmental spending as was spent in 1984? And I know your staff member is handing you the answer to that.

Ms. GOODMAN. Mr. Hunter, that is just not accurate, and let me tell you why.

Mr. HUNTER. OK; I've got CBO's numbers right here, and let me just cite what CBO says and you can tell me when they are wrong. Environmental spending, DOD, 1984, \$213 million; 1994, \$5,546,000,000.

Ms. GOODMAN. In 1984 we had no ability, Mr. Hunter, to track our environmental compliance costs which are our largest actually environmental costs in the defense budget. We had no pollution prevention program. We did not include environmental technology as part of our environmental tracking system, and we had an almost nonexistent conservation program.

So in 1984 the dollars that you recite there were mostly created in the 1984 Defense Environmental Restoration Account. We, of course, also had no BRAC account so, of course, as I showed you at Norfolk Naval Base, we were doing things like having sewage treatment plants and waste water treatment plants. You are right, they are not new, but we did not consider those to be environmental expenditures in that day. So it is the same type of work, but we track it differently today in 1995—1994, than we did 10 years ago.

Mr. HUNTER. Do you think that accounts for 25 times as much expenditure, this different denomination, for this monster difference?

Ms. GOODMAN. I think it accounts for well over half of it because we have better ability to track it.

Mr. HUNTER. On that point though, let me ask you a question because we don't have a lot of time. I want you to get for us, if you could, the difference that you think is attributable to this semantics, okay? You say we really were expending a lot of this money but we didn't call it that. Well, where did it come out of, because the O&M budgets don't reflect it that much.

Ms. GOODMAN. It is mostly O&M or military construction, because if you build a sewage treatment plant that is a MILCON project.

Mr. HUNTER. OK; I think that is anecdotal. I don't think it accounts for a 25-percent increase, okay?

Ms. GOODMAN. Two other points, Mr. Hunter, and you and I have talked about some of this before.

In one area, cleanup, the costs have grown there because in 1984 the program was just created and we didn't know how many sites we had. We started with an inventory of a few hundred. Today we have identified over 20,000 sites that need some kind of attention. Almost half of those we have determined don't need any further ac-

tion, because through responsible investigation and analysis over the last decade we have determined that those can be put aside, and now we are in the mature phase of our cleanup program where we are actually moving dirt. I showed a chart earlier that showed that in fiscal year 1996 we will spend almost 70 percent of our investment in cleanup on real dirt-moving activities.

As to the laws, Mr. Hunter, there were environmental laws back in 1984, yes, you are right, but there have been some changes since then. In 1986 the Superfund law was amended and that applied, and, along with that, President Reagan issued an Executive order that applied to the Department of Defense and other Federal facilities all the other Federal environmental requirements, and in 1990 the Clean Air Act was amended, and in 1992 the Federal Facility Compliance Act was passed which amends the Resource Conservation and Recovery Act, RCRA, and that now enables State and Federal regulators to levy fines and penalties against the Department of Defense.

Mr. HUNTER. Do you want us to stop that? Do you think it is unreasonable?

Ms. GOODMAN. I think it treats Federal facilities the way it treats private employers, so if you want to ask a question about whether anybody should be fined and penalized, that is a good question.

What I would tell you, more importantly though, is that we are looking for some flexibility in how we go about meeting our environmental requirements and an ability to put pollution prevention and technology, which are our best payback items, as the first way to obtain responsible compliance.

Mr. HUNTER. OK; Thank you.

I know that the chairman needs to let you folks leave, but I just want to inject this one point, Mr. Chairman.

I think with all the things you have given me, all these conditions and qualifiers, this is a monster problem that has resulted many times in bloated contracts, big, big money spent on paper, unnecessary acquiescence to State and local mandates that to some degree were driven by their private contractors who wanted jobs, and if this were a weapons system we would be tearing this thing apart right now.

We need to reform this process, and I think we are going to move fairly substantially into that. But we have got to reform this process because there is enormous waste, in my estimation, for all of the things that you have said in this budget.

Mr. BATEMAN. Thank you, Mr. Hunter, and before excusing the panel, looking at the prepared statement of the Congressional Budget Office, Madam Secretary, on page 28 is the table that Mr. Hunter is referring to, starting with 1984 and the \$213 million, ending in 1994 with the \$5,546,000,000, and I understand your explanation that the last year and the last figure include things that were not included in your methodology when you started off in 1984, but I would assume that the figure for 1994 was arrived at by the same methodology perhaps as 1993, or 1992, or 1991. Look at it in the context of when you started tabulating the data the way it was done in 1994, and then give us commentary as to why

the change in the figure from that point forward. Could you do that?

Ms. GOODMAN. I would be happy to do that, Mr. Chairman.

Mr. ABERCROMBIE. Mr. Chairman, could you yield just for 30 seconds?

Mr. BATEMAN. Certainly.

Mr. ABERCROMBIE. Thank you very much.

Included in that you mentioned something very important about ordnance cleanup. I think I can understand, just to put another very brief perspective on the increase in numbers, if you do ordnance cleanup, you are getting into tens of millions, perhaps hundreds of millions of dollars, right off the bat that you wouldn't have in 1984. So in that answer, if you could include that kind of thing and perhaps some recommendation as to whether in some instances we should give up the idea of ordnance cleanup and perhaps make some kind of settlement with the community, cut the place off and give up on it, that might be more in order than trying to clean it up and might be better to make some kind of cash settlement or land trade or something of that nature. If you could take a look at it from that point of view. I know we have that kind of situation in the Pacific where it is hopeless almost.

Mr. SISISKY. Would the gentleman yield?

Mr. ABERCROMBIE. Well, it is Mr. Bateman's time. He was kind enough to yield.

Mr. BATEMAN. I recognize Mr. Sisisky.

Mr. SISISKY. Didn't your Senator take care of that in Hawaii?

Mr. ABERCROMBIE. Not if the money gets rescinded. I know what it is like to be in an ordnance situation where you have to have hundreds of millions of dollars to get your cleanup.

Mr. BATEMAN. I would again like to thank our panel of witnesses. You have been extremely helpful to us. You will be of further help if you could respond to the additional questions we will have for the record within 2 weeks, and we would like a special emphasis on your suggestions as to the way the body of organic law that affects these operations can be improved without detriment to public health and safety and to effect economies for the Department of Defense and the taxpayers.

We thank you very much. You have been very helpful.

Ms. GOODMAN. Thank you, Mr. Chairman and members of the committee.

[The following information was received for the record:]

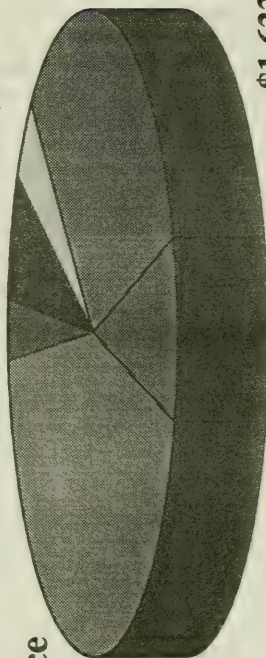


Environmental Security FY 1996 Budget

\$4.969 Billion

Pollution	
Prevention	
Conservation	\$145
Technology	\$218

Compliance
\$2,205



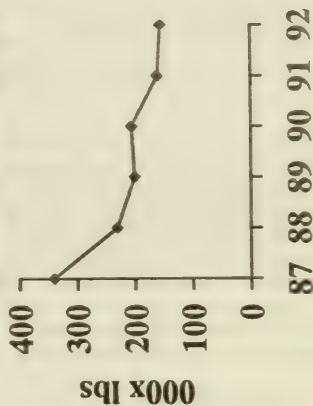
\$457
BRAC

\$1,622
Cleanup

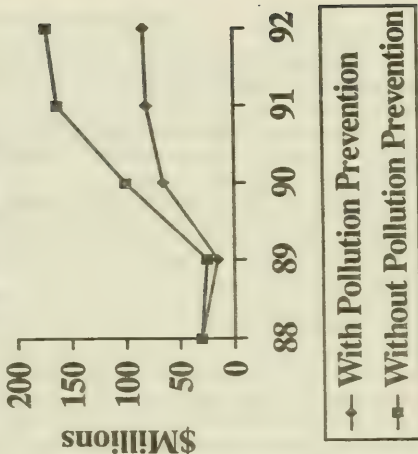


Effects of Pollution Prevention Activities on Disposal Costs

Hazardous Waste Disposal DoD Wide



Disposal Costs



DOD ENVIRONMENTAL R&D

Mr. Weldon: Currently we have several departments and agencies doing environmental R&D. Given DOE's and other departments' efforts. Why is DoD even in the environmental R&D business?

Ms. Goodman: DoD's environmental research and development is focused on requirements that are either unique to Defense or which the Department has an urgent need not being fulfilled by the commercial sector.

For example, DoD is the largest producer, stockpiler, and user of energetic materials in the form of propellants, explosives, and pyrotechnics. These materials, their production waste streams, and their byproducts are often highly toxic and/or hazardous. The soil and groundwater at some of our installations are contaminated with explosives. In addition, one of our most pressing clean-up R&D issues is the detection, removal and disposal of unexploded ordnance. Technologies to deal with these issues are not readily at hand and are the focus of a variety of new and innovative approaches.

Another example of an environmental issue which can influence operations is the stricter overboard discharge requirements for our ships. These restrictions have the potential to severely limit the scope of our ship deployments. The implications are more serious for warships than merchant ships due to the differences in the length of time they spend at sea. These unique requirements have driven a significant effort in technologies for the shipboard processing of plastics, trash, sewage and wastewater.

The DoD environmental research and development programs are focused on the highest priority DoD environmental needs. Some environmental issues impact directly on our training, acquisition and operations as noted above. Other environmental issues are major cost drivers within the DoD budget. Technological solutions to these issues will result in improved readiness for our forces and lower costs for the Department.

DOD ENVIRONMENTAL R&D GUIDANCE

Mr. Weldon: What guidance from DoD do the services receive to plan their environmental R&D programs?

Ms. Goodman: There are two guidance and planning documents that DoD publishes for environmental R&D planning. These are the Environmental Technology Requirements Strategy (ETRS) and the Tri-Service Environmental Quality R&D Strategic Plan (the "green book"). While these are both published by DoD, the services are the main contributors and collaborators in preparing them. ETRS is a survey of the Department's primary environmental technology requirements and is the document that environmental R&D planners use to establish what will be investigated. The Environmental Quality R&D Strategic Plan is the document that provides guidance to the R&D community on how the environmental requirements are to be addressed. The document defines goals and milestones as well as identifying the responsible service.

SERVICES ENVIRONMENTAL R&D PROGRAMS

Mr. Weldon: Are the services' environmental R&D programs intended to "fix" individual environmental problems unique to a given service or is there an honest attempt to systematically develop a coordinated program?

Ms. Goodman: The Tri-Service Environmental Quality R&D Strategic Plan is the document that coordinates all of the services' R&D efforts. It is not just a compendium of ongoing work but rather a joint effort to build a program where non-duplicative R&D is undertaken to support all military customers. The basis of each technology area is an environmental requirement. From this, a strategy or "roadmap" to meet the requirement is planned and then individual technologies and investigators are assigned. This approach provides a customer oriented focus that prevents the R&D program from devolving into a series of fixes to individual problems.

ENVIRONMENTAL R&D

QUESTION: Are the Services environmental R&D programs intended to "fix" individual environmental problems unique to a given Service or is there an honest attempt to systematically develop a coordinated program?

ANSWER: DoD has developed a comprehensive Environmental Technology Planning Process to define, consolidate, prioritize and communicate component needs to the R&D community. This "user-driven" process begins with a systematic identification of technology needs, which each Service evaluates and prioritizes based on established criteria that includes pervasiveness across DoD, human and environmental risks, payback, and potential mission impact. After the DoD laboratories develop R&D programs to meet those needs, DoD compiles this information into the Tri-Service Environmental R&D Strategic Plan. The Services thoroughly review this plan to ensure there is no duplication of effort, and that the service-specific lead laboratory is developing technologies for a particular environmental quality thrust area. For example, the Army has the lead responsibility for cleanup and conservation, while the Navy and Air Force are responsible for compliance and pollution prevention, respectively.

COORDINATION OF SERVICES' R&D ENVIRONMENTAL PROGRAM

Mr. Weldon: How are the Services' R&D environmental activities interfaced and coordinated with EPA and DOE programs?

Ms. Goodman: There are two DoD programs where there is interface among DoD, DOE and EPA. The Strategic Environmental R&D Program (SERDP) and the Environmental Security Technology Certification Program (ESTCP) both have mechanisms in place to formally interface with the other agencies. SERDP is a joint program among the three agencies, with all three submitting proposals, providing proposal evaluators and with representatives on the Executive Councils overseeing the Program. This assures that SERDP will be able to select among the best of the performing labs for its projects.

The ESTCP program operates by having Government activities propose projects for demonstration/validation of environmental technologies. The program started in FY95 and for that year we limited the proposers to military activities. However, we have used technologists from DOE and EPA labs as evaluators to assure that we were funding original work. In addition, we are asking the Environmental Management Directorate of DOE to propose technology projects for ESTCP as well so that we can expand the base for project evaluation and leverage DOE investments.

There are also two non-DoD projects where there is significant coordination and interface. In the EPA's Environmental Technology Initiative, the DoD is active both in proposing technology programs and in evaluating the proposals. We therefore get a great deal of exposure to and coordination with the work of labs in several other agencies. The DoD is also actively involved in the Rapid Commercialization Initiative conducted by the Interagency Environmental Technology Office. This is a technology project that involves all technical agencies of the federal government. These non-DoD projects are also being coordinated by the Committee on Environment and Natural Resources, through the Office of Science and Technology Policy.

ENVIRONMENTAL R&D

QUESTION: How are the Services R&D environmental activities interfaced and coordinated with EPA and DoE programs?

ANSWER: EPA and DoE are key partners in DoD's environmental technology development efforts. Representatives from all levels of DoD, from field level scientist and engineers, to policy-makers at the Pentagon, actively participate with these agencies in a wide range of initiatives, such as establishing centralized information offices, distributing technical letters and flyers, and setting up electronic bulletin boards. Another good example of this partnership is the Strategic Environmental Research and Development Program (SERDP). SERDP is a direct-funded R&D program that provides resources to address common, high priority environmental concerns affecting DoD, EPA, DoE and, other Federal Agencies [including the National Oceanic and Atmospheric Administration (NOAA) and NASA]. A major benefit of SERDP is the joining of institutional knowledge and expertise from all participating agencies. More than 35 percent of projects involve partnerships with industry to enhance efforts in technology transfer with the private sector.

CLASSIFIED

ENVIRONMENTAL R&D EXPERTISE

Mr. Weldon: How does DoD make the calls on who should address what environmental R&D problem?

Ms. Goodman: The decision of who should address a specific environmental problem is based on utilizing the best possible performers in the field. Over the years, each service and its respective laboratories has developed expertise in its respective areas. In many cases, this expertise is centered on unique facilities. In some cases, each service has developed similar expertise in a specific technology. Project Reliance was established to fully integrate the capabilities resident in our laboratories and to eliminate any duplication of effort among the services. A taxonomy was developed and a service was assigned as the lead service for each of the elements in the taxonomy. The Director, Defense Research and Engineering has cognizance over the entire process.

In addition, the Tri-Service Environmental Quality R&D Strategic Plan clearly identifies each work unit with a service and a performer. The plan is based on the Reliance taxonomy and is designed to address the highest priority DoD requirements. The Reliance taxonomy and the Strategic Plan are developed and maintained by the Tri-Service Joint Engineers Management Panel and the entire process is overseen by the Director, Defense Research and Engineering.

SERDP NON-DEFENSE PROGRAMS

Mr. Weldon: The SERDP is a program that addresses a wide variety of environmental projects, including things like global warming. How does the Department justify support for these non-defense programs.

Ms. Goodman: The originating SERDP legislation fostered research and development efforts in a broad spectrum of environmentally related areas, including Energy Conservation and Global Environmental Change. However, one of the results of the reduction in SERDP funding in FY1995 was a significant modification of the program. In February 1995, the SERDP Council approved the modified investment strategy which focused SERDP funding on DoD mission-relevant needs (those in the areas of Cleanup, Compliance, Pollution Prevention and Conservation.) The funding for the remaining areas of Global Environmental Change and Energy Conservation will be phased out over the next two years. This phasing will permit the orderly completion and close out of projects in order to ensure that our initial investment in these projects is not lost.

\$ FOR ENVIRONMENTAL INVESTIGATIONS

Mr. Bateman: Some in Congress have suggested that a disproportionate amount of money for environmental remediation has been spent for studies, rather than for cleaning up contaminated sites. What percentage of the total annual environmental funding is spent on studies, and why should we be spending money studying sites rather than cleaning them up?

Ms. Goodman: In the FY 1996 President's Budget submission for Environmental Restoration, Defense (DERA), 18% of the requested funds are directed toward investigation and analysis (otherwise known as "studies") for environmental restoration. The investigation and analysis phase is a critical part of the cleanup process. Just as a military commander must first conduct surveillance and reconnaissance of the enemy, then develop a detailed battle plan before marshaling his attack forces, we must first understand the types, locations and severity of the contamination as well as the physical characteristics of the site before we act to remove it. Subsurface investigation and cleanup is difficult and expensive with many unknowns. Insufficient investigation will lead to more costly, conservative remedies being selected. This does not mean that we should not seek to reduce the amount of studying we have historically performed. We are working hard to ensure the proportion of funding for studies versus cleanup is appropriate and we believe we are nearing that level.

Not only are investigations and analyses important tools to determine whether a cleanup action needs to be taken, and what the appropriate, cost effective remedy should be, but they are required under existing cleanup statutes and regulations. For communities faced with possible exposure to toxins, one of the most fearful aspects is not knowing if they are being exposed. As such, environmental laws place a high priority on investigations to determine the existence and extent of contamination. The information we have suggests that in fact the Department has devoted less to studies than EPA and private sector sites.

CLEAN UP PRIORITIZATION

Mr. Bateman: One of the complaints about DoD's environmental program has been that the department has not done a good enough job of prioritizing the clean up work. In other words, not all of the most contaminated sites get cleaned up first. What action have you taken to prioritize the Department's clean up activities. Would each of the service representatives also address what their respective services are doing to prioritize clean-up activities?

Ms. Goodman: The Department of Defense is implementing a relative risk evaluation at all sites to help ensure that work is generally sequenced first at those sites or areas of contamination that pose the most risk to human health and the environment. In the past, priorities were established at the field level using a variety of methods and factors. At many installations, work priorities were established by DoD and regulatory agency personnel as part of regulatory agreement negotiations. Because additional data is now available, we believe that work sequencing should be reviewed on an annual basis using risk as a key factor. Relative risk site evaluations provide a means for accomplishing this objective. The goal is to conduct relative risk site evaluations at the field level with input from local regulators and community members. As a result of the relative risk evaluations, sites and areas of contamination will be placed into *High*, *Medium*, or *Low* relative risk categories. Information on the regulatory agreement status of each site will then be combined with the risk information to build risk evaluation into management of the restoration program.

An interservice work group developed the concepts and implementation procedures for the relative risk site evaluation framework. This work group has been overseeing the implementation and conducting peer reviews to ensure consistency between the services.

AIR FORCE CLEANUP PRIORITIES

UNCLASSIFIED

QUESTION: What is the Air Force doing to prioritize environmental cleanups?

ANSWER: The Office of The Deputy Under Secretary of Defense for Environmental Security (DUSD(ES)) establishes Defense Environmental Restoration Program (DERP) priorities for the entire department. Currently, DUSD(ES) is directing the components to prioritize their environmental response requirements to proceed with more cleanups in lieu of continued study-related activities. The Air Force has reduced study requirements and streamlined the investigation process; the Air Force is placing priority on cleanup activities, including interim removal actions. While the Air Force continues to pursue a strategy that enables us to minimize study time and costs, we are also using relative risk to sequence our requirements outlined in our legal agreements. Through our Restoration Advisory Boards, we are able to consider the inputs from all stakeholders (regulator, community and Air Force) in determining cleanup priorities. Ultimately, relative risk allows us to place our funding resources on those sites which present the greatest threat to human health and our natural resources.

UNIFORM FEDERAL CLEANUP STANDARDS

Mr. Bateman: Under current laws and regulations, DoD is often forced into negotiating agreements with the states and the Environmental Protection Agency governing the cleanup of contaminated sites. In those cases where a state clean up standard for a given contaminant may be more stringent than a federal standard, the law requires DoD to comply with the stricter state standard. Would the adoption of uniform federal cleanup standards for known contaminants make sense? What advantages or drawbacks do you see to such a change?

Ms. Goodman: Adoption of a uniform point of risk (with provisions for waiver in the event of technical infeasibility) would provide more widespread regulatory relief than the protracted development of individual federal cleanup standards. Eliminating the "relevant and appropriate requirements" and limiting compliance to those federal and state standards designed specifically for cleanup would assist the Department. The drawback with establishing a uniform cleanup standard for specific chemicals is that overly protective standards would need to be adopted to cover all potential exposure pathways, receptor populations, and site characteristics. We support the proposal contained in last year's Superfund Reform effort that would have established a single point of risk for carcinogens for use when establishing site specific cleanup standards.

LEGISLATIVE REMEDIES

Mr. Bateman: What changes to current law would you recommend that would make execution of DoD's environmental mission easier and more cost effective?

Ms Goodman: There are two major areas of responsible regulatory reform that would benefit DoD. Let me start with Cleanup or Superfund reform.

The current law requires costly remedies that vary from jurisdiction to jurisdiction, fosters adversarial relationships between federal and state regulators and contains obstacles to economic redevelopment. In the area of remedy selection, we need to develop a risk protocol that uses realistic assumptions and doesn't compound worst case scenarios. We need to establish a single point of risk when determining cleanup standards while allowing for waivers or alternate levels when the national point of risk is technically infeasible (such as most kinds of radionuclides). We need to eliminate the statutory mandate for remedies that are permanent and treat wastes across the entire site, when it is more practical to concentrate our efforts on the hot spots and use alternate technologies for the larger areas with lower levels of contamination. We need to include cost-effectiveness more formally in the remedy selection process. Currently, costs are considered equally with eight other factors through the Superfund regulations (NCP). Providing more emphasis on cost-effectiveness will help ensure a balanced program.

There are several provisions that need modification in order to facilitate base closures. The MILCON bill recently forwarded to the House Committee on National Security contains these four provisions which would (1) ensure the continued ability of DoD to lease closing property, (2) transfer property ownership before remedial actions are complete while assuring that cleanup will be completed, (3) modify the definition of clean parcels by eliminating the term "storage" from the list of exclusionary requirements, and (4) clarify that DERA funds may be spent at newly designated BRAC sites until establishment of the 95 BRAC account.

There is also concern about proposed modifications to the existing Superfund law. It is imperative to the Department that we retain our full removal authority at both National Priorities List (NPL) and non-NPL sites. A requirement for the Department to seek regulator approval for removals would significantly slow our cleanup progress. We also do not support any waiver of sovereign immunity that would allow state and federal regulators to take enforcement actions compelling DoD action. We believe this broad waiver would allow States and EPA to usurp the

ability of DoD to establish funding priorities and will favor states using legal action rather than funding cleanup at the highest relative risk sites first. It would also divert cleanup funds to litigate against the States and EPA.

Current law prevents EPA from deferring listing of federal facility NPL sites even when State actions are underway under RCRA or other state authority. The effect of the current law is a duplication of effort and that federal facilities are treated differently than private sites. This amendment would provide the necessary discretionary authority to EPA to defer listing a federal facility on the NPL.

The second area of responsible regulatory reform relates to the compliance program. In the development of implementing rules for environmental laws, we have already been working with EPA and state legislatures to ensure that any investment required by new rules yields a reasonable improvement to the environment. We want to consider pollution prevention projects which eliminate or reduce contamination as the preferred response before investing in costly compliance projects.

In addition, there are many compliance reporting requirements levied by the Congress that result in money being expended on reporting rather than doing. We are, for example, required to report on our purchases of recycled content items which meet EPA guidelines for recycled content. The list of these guidelines items is growing -- 21 additional items have been proposed and are in the approval process -- and so will the associated reporting cost. With the pending requirement to always purchase these items, it seems that this is a report that might be eliminated. Another example of reporting which seems to have outlived its usefulness is that for ozone depleting substances. Section 326 of Public Law 102-484 imposes a quarterly report covering new contracts which require ozone depleting substances and existing contracts modified to eliminate the use of these substances. Production of halon, a prime ozone depleter, ended in January 1994, and production of Class I ODSs will end in January 1996. After these phase outs, the only domestic source will be from our closely controlled DoD ODS banks stocked with recycled/reclaimed product. Despite this, the requirement for ODS reporting, which costs the Department more than \$693,000 annually, remains in effect.

ENVIRONMENTAL PROGRAMS AND DEFENSE MISSION

Mr. Bateman: Many Members of this committee have suggested that too many "non-defense" programs are being paid for from the defense budget. For example, in the past, projects such as research for Lyme disease and breast cancer have been funded in the defense budget. While these may be very worthy programs, the argument goes that they do not directly relate to the core mission of DoD, and so they should not be funded from the defense budget.

Some would classify spending for environmental programs within this category of "non-defense" activities that should not be paid for in the defense budget. Please explain why, in your view, DoD's environmental activities are sufficiently related to national defense that we should continue to fund them in the defense budget.

Ms. Goodman: The best proof that the DoD's environmental activities are defense related is the fact that they help support readiness. A key readiness requirement is continued access to the air, land, and water we need to train our troops and test our weapons systems. If DoD does not maintain the environment on its 25 million acres of land, it could lose its access to these valuable testing and training ranges. Contamination on our ranges has already cost DoD access to its land at some installations. Additionally, maintaining the natural resources on our training ranges make them much more realistic areas in which to train, adding to the effectiveness of our troops, rather than detracting from it. We operate a lot of facilities in the Department in order to generate power and steam, treat industrial waste water, maintain and repair weapon systems, and to train our troops. Not complying with the same environmental laws that private companies must obey could cause these operations to be shut down. The resources we invest in pollution prevention and environmental technology allow DoD to operate more efficiently. Using less hazardous materials in our day-to-day operations not only helps prevent pollution and the cost to clean up potential spills, but saves the cost to store and then dispose of the hazardous waste. Any savings thus generated are available for other uses. For example, Hill Air Force Base has saved over \$10M simply by managing its hazardous materials using the pharmacy concept where only the amount needed is dispensed. Finally, cleaning up the contamination the Department caused during years of industrial operations that caused environmental damage helps protect the health of DoD personnel and dependents, the surrounding communities where civilian workers reside, and preserve the training areas we need. In short, our environmental investment is balanced with and adds to the readiness of the Department.

REDUCTION TO ENVIRONMENTAL FUNDING

Congressman Bateman: It has been suggested that it would be unwise to reduce environmental funding for the DERA and compliance accounts because those accounts are essential to enabling DoD to comply with cleanup requirements imposed by law. On the other hand, some have argued that it would be unwise to reduce funding for investment accounts, such as pollution prevention and environmental research and technology. The argument goes that to do so would be to eliminate our best prospects for developing new and better technologies that may, in the long run, make environmental clean up less expensive.

Let's hypothesize that there is going to be a reduction in environmental funding in this year's defense bill from the funding level suggested in the President's budget submission.

If you had to take a cut of several hundred million dollars this year, in which accounts or activities would you prefer to take the reduction? Why?

Ms. Goodman: Any reduction to environmental accounts should be taken in those areas that least affect a base commander's ability to accomplish the military mission. At this time, I cannot assure you that any distribution I give you today, next week, or next month, would meet the criterion of minimum adverse mission impact. Although we can prioritize work in each of our major environmental areas, inter-program prioritization is more difficult given the lack of models, at this time, to evaluate options

REDUCTION TO ENVIRONMENTAL FUNDING

Congressman Bateman: If Congress simply passed an undistributed reduction for environmental funding, what would be the effect of such a "salami slice" approach? Would such an approach be preferable to one in which a funding reduction is targeted at a specific activity like the DERA account?

Ms. Goodman: An undistributed reduction is always preferable to a targeted reduction, since the former permits the most flexibility to evaluate and choose options. Although we do not, today, have models in place to evaluate inter-program trade-offs, we are in the process of developing such models, and hope to have them in place early in FY 1996. Again, the ultimate goal of apportioning any resource reduction is to minimize adverse mission impact.

ESTIMATED COST TO COMPLETE CLEANUP

Mr. Bateman: In 1991, DoD estimated that it would cost almost \$30 billion to clean up all DoD contaminated sites. What is DoD's current estimate of the total cost to clean up all its contaminated sites?

Ms. Goodman: In 1991, DoD estimated that it would cost \$24.5 billion (1991 dollars) to clean up sites. This figure included cleanup at operational and closing bases and formerly used defense sites. It was based on a "top down" approach--applying typical costs for each site type (e.g., landfills) to all sites in that category. In 1994 testimony and again this year, I referred to program costs as "in the neighborhood of \$30 billion." This is a working estimate, rather than an official estimate. The Defense Environmental Restoration Program Report to Congress for fiscal year 1994 which was completed in late March 1995, after the hearings, shows site costs of \$31 billion. This includes site analysis and cleanup costs at operational and closing bases and Formerly Used Defense Sites. It does not include: program administration expenses, support to the Defense and State Memorandum of Agreements Program and Agency for Toxic Substances and Disease Registry, and potentially responsible party costs. DoD is continually working to improve its cost estimating capability.

CLEANING UP TO FUTURE LAND USE

Mr. Bateman: Presently, military bases and contaminated sites are frequently required to be cleaned-up to background levels of pollution, as if no contamination had ever occurred. One approach that has been suggested to ease the clean up burden on the Department of Defense would be to permit clean-up standards to reflect "reasonably anticipated future land uses," so that, for example, a closing base that might become an industrial site would not have to be cleaned up to the same standards as a base that might become a residential area.

Would the Department of Defense support such a change in the law, and how significant would you anticipate the cost savings to be from such a change?

Ms. Goodman: The Department supports fully the inclusion of provisions that would allow regulators to consider the future land use of sites and incorporate the future land use into the remedy selection process. Such a process was included in last year's Superfund Reform proposal. The cost savings are not as great as expected because some inclusion of future land use is already occurring. DoD's analysis indicates that 4-5% of remedial action costs would be avoided, and that these costs would be phased in over several years.

CLEAN SITES

Mr. Bateman: How many contaminated sites has DoD identified as requiring cleanup? How many of these sites have been cleaned up? How many of these sites will be cleaned up in the next two years?

Ms. Goodman: As of the end of FY94, the DoD had confirmed, through investigation and analysis, that 1,838 sites on DoD installations and 881 Formerly Used Defense Sites (FUDS) require cleanup. This figure is expected to increase in future years as investigations are completed and we confirm whether or not other sites will require cleanup. There are 10,574 DoD installation sites and 2,592 FUDS at which investigation and analysis are ongoing or planned to determine if cleanup is required. Also, there are 1,494 potential FUDS properties which are undergoing (or will soon be undergoing) eligibility determination and/or preliminary assessment to determine if DoD cleanup action is required.

At the end of FY94, the DoD had completed cleanup at 810 DoD installation sites and 265 FUDS. Considerable cleanup work has occurred at an additional 1,173 sites, where DoD has completed 1,387 Interim Remedial Actions (IRAs). IRAs substantially reduce risk from contaminated sites, sometimes enabling DoD to move high relative risk sites to lower risk categories.

Based on the number of responses completed in FY93 (420) and in FY94 (316) and the number of cleanups underway in FY94 (462 installations and 266 FUDS), we estimate we will complete all or a majority of the cleanups currently underway by FY97.

FAST TRACK CLEANUP PROGRAM

Mr. Bateman: Please describe improvements to cleanup of hazardous sites at closing bases under DoD's "Fast Track Cleanup" program. Do these methods have potential for implementation at active bases and have you begun such efforts?

Ms. Goodman: We have experienced two key improvements in Fast Track Cleanup that are already being implemented in the Defense Environmental Restoration Program at our active installations.

1) Empowerment - The process of Fast Track Cleanup has motivated both the Military Departments and regulatory agencies to review their internal processes for decision-making. The result is delegation of authority and improved technical, administrative, and contracting support for the on-site project managers at the installation level. When these improvements are combined, the result is that the people at the installation, with the most knowledge of the situation, have the authority and the professional support they need to make the best decisions. We are making great strides in this area, which is having a positive effect on the cleanup process - saving time and allowing us to move forward with the actual cleanup work, instead of taking years to study problems and solutions.

2) Partnering - By working with, instead of against, regulators, contractors, and other stakeholders, decisions can be made earlier in the process, document reviews can be streamlined, and disputes can be minimized. We have learned this through both the BRAC Cleanup Teams (BCTs), and also through the Restoration Advisory Boards (RABs). Although BCTs are not being "formed" at our active installations, we have learned the value of their partnering success, and are now emphasizing partnering at our active installations. In our BRAC program, the primary result is time savings, reached through reduced document review periods and more streamlined decision-making. This has resulted in making property environmentally suitable for transfer at an accelerated pace.

Through Restoration Advisory Boards, we have learned the value of involving the community members in the entire cleanup process - this fosters a more open and trusting relationship, which can improve the cleanup process through smoother public review of documents and through the contribution of ideas regarding the actual cleanup work. The Department and EPA developed joint RAB guidance that is now being implemented at our closing and active installations. We have a combined total of over 180 RABs at DoD installations.

PROPERTY TRANSFER

Mr. Bateman: How many closing or realigned installations have property that has been transferred to the private sector through leasing and transfer of ownership?

Ms. Goodman: The Department has transferred property at major installations to the private sector at 10 Army (plus numerous stand-alone family housing sites), 15 Navy, and 21 Air Force bases.

ACREAGE TRANSFER THROUGH FAST TRACK CLEANUP

Mr. Bateman: Of the total acreage at closing or realigned installations, how much has been transferred through the "Fast Track Cleanup" program?

Ms. Goodman: Fast Track Cleanup is not necessarily a property transfer vehicle. All property must be clean or cleaned-up before it can be transferred by deed, in accordance with the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The Department has two processes to document the environmental suitability of real properties that are being made available to the community as a result of BRAC. The first of these -- Finding of Suitability to Transfer (FOST) -- is the framework for documenting the conclusion that the property is suitable for transfer by deed.

We developed the "Fast Track to FOST" guide for determining if property is environmentally suitable for transfer. A joint work group consisting of my office, the Military Departments, the Environmental Protection Agency, and the California Environmental Protection Agency developed this guide to assist BRAC cleanup teams in expediting transfer of property.

The second process -- Finding of Suitability to Lease (FOSL) -- covers how we document that a property can be leased even when we have ongoing environmental remediation. The Department developed both the Finding of Suitability to Transfer and the Finding of Suitability to Lease documents in cooperation with federal and state regulators to find a way to return base closure property to reuse more quickly.

Significant acreage is currently acceptable for transfer because no contamination was found or the levels are within acceptable ranges. The table below demonstrates our achievements to date in making property available -- *approximately 60% of the property at closing bases in the 1988 and 1991 rounds is ready for transfer from a cleanup standpoint.*

ROUND	TOTAL ACRES AT CLOSING BASES	ACRES CLEANED UP (OR "CLEAN") & AVAILABLE FOR TRANSFER
BRAC 88	148,684	88,343
BRAC 91	98,477	58,333
TOTAL	247,161	146,676

BUDGETING FOR EMERGING REQUIREMENTS

Congressman Bateman: One of DoD's challenges in trying to budget for environmental compliance is that the Federal budget process is not in sync with the generation and enforcement of regulatory requirements. DoD starts putting together a budget request 18 to 24 months before budget execution. Conversely, compliance requirements are being generated almost daily by a host of Federal, state, and local agencies. Under these circumstances, how is DoD going to put together a budget request that can address these emerging requirements?

Ms. Goodman: DoD continues to face the challenge of addressing emerging requirements within the budgetary time frames. The Military Components project environmental requirements based on current information available. The Department is tackling this problem by improving DoD's involvement in the development and awareness of new requirements through the Executive Agents for Regional Environmental Security Coordination. In addition, the Military Departments have developed improved tools for installations to address these requirements in the budget process. Most importantly, the Department's priority is pollution prevention. By eliminating the pollution, the compliance requirement is eliminated along with the budgeting problem.

INNOVATIVE CLEANUP TECHNOLOGIES

Mr. Bateman: One of the ways DoD can meet its cleanup goals is to push for the use of innovative cleanup technologies. It may be however, that response action contractors are reluctant to use innovative cleanup technology because of the greater risk from a law suit. What do you think can be done to overcome this problem?

Ms. Goodman: I agree. The use of innovative cleanup technologies is one of the best ways we can meet our cleanup goals. However, there is a reluctance to use these technologies. Not only are the contractors reluctant to use new technology, so are the regulators who issue the permits. Since cleanup is a regulatory driven action, the combination of regulator and contractor reluctance means that improved cleanup methods have a very difficult time entering the market.

To correct this problem we must assure that technologies that we develop are validated under actual field conditions and to make these data available to the widest audience possible. This is the purpose of the ESTCP program. We will demonstrate and validate mature technologies and report our findings under predetermined protocols so that the remediation community will be able to evaluate whether the technology performs as specified and it is cost effective. We will actively involve the regulators and the users so that we can obtain buy-in if the technology proves successful.

SELECTING COST-EFFECTIVE CLEANUP REMEDIES

UNCLASSIFIED

QUESTION: What efforts are being made to identify the most cost-effective means of remediating Air Force sites?

ANSWER: The Air Force uses peer reviews to ensure our installations select cleanup remedies which are not only cost-effective, but also technically sound. As part of a site feasibility study, major air commands convene a panel of technology experts to review the list of proposed remedial technologies. A second peer review is also conducted for large-scale cleanups during the remedial design phase to ensure that the scope of the cleanup is correct. The initial peer review process is a review of information gathered during the remedial investigation/feasibility study (RI/FS) and results in a decision of the best remedy for the site. To ensure objectivity in our peer reviews, peer review committees are made up of unbiased experts from a diverse cross-section of the technology community including, academic institutions, national laboratories, regulatory agencies, contract service centers, and private industry.

SITE REMEDIATION OPTION CRITERIA

UNCLASSIFIED

QUESTION: Does the Air Force use specific cost criteria in evaluating different remediation options for each site? Is the remedy's suitability for reuse a consideration?

ANSWER: Yes, Air Force remedial project managers use a variety of tools to evaluate site remediation options. The process includes evaluation of site-specific conditions, including cleanup option costs and future land use. Remedy evaluation begins with narrowing the list of potential remediation options for a given site. To do this, the Air Force uses the Department of Defense Environmental Technology Transfer Committee's Remediation Technologies Screening Matrix and Reference Guide. Once contaminant cleanup standards are known, project managers design treatment system options and cost them out using computer-aided cost estimating software. A remedy's suitability for land reuse is important to the Air Force, regulators, and surrounding communities. Restoration Advisory Boards provide a forum for all points of view to be heard on future land use. The option chosen must be approved by the state and Federal regulators, if any, with jurisdiction.

CLEANUP OF PETROLEUM HYDROCARBONS

UNCLASSIFIED

QUESTION: In addition to traditional forms of cleanup of petroleum hydrocarbons such as incineration or landfilling, does your service consider more cost-effective remedies such as in-situ bioremediation, bioventing, or oil vapor extraction?

ANSWER: Yes. By far the most common contaminant at Air Force installations is jet fuel and other petroleum-based substances. In response, Air Force efforts have focused on identifying cleanup technologies which are most effective on these types of contaminants under a variety of site-specific conditions. Bioventing has been the cornerstone of the Air Force's success in using innovative technology to reducing cleanup costs over conventional alternatives such as soil excavation, removal and incineration. Currently the Air Force has 125 operational bioventing systems. The Air Force has also successfully documented the occurrence of natural attenuation of certain contaminants in soils thus, in some case, eliminating the need for additional study or cleanup. Overall, the Air Force has successfully applied bioremediation technologies at over 80 installations. The following is a summary of these efforts:

- **Bioventing:** 125 sites at 54 bases; 35 follow-on sites at 22 bases
 - At Travis AFB, regulators partnered with the AF to turn a \$3M project for soil excavation, removal, treatment and backfill for contaminated soil into a \$1M project for bioventing--after the ROD was signed!
- **Natural attenuation:** 46 sites at 28 bases
 - At George AFB, using natural attenuation in lieu of traditional pump and treat systems for cleaning up past contamination saved \$18M.
- **Two-phase extraction (bioslurper)** at 35 sites on 33 bases
- **Other Air Force technology transfer projects:**
 - Vapor phase treatment (17 sites, 4 bases)
 - Cometabolic Bioventing (Plattsburgh AFB)
 - Surfactant Enhanced Groundwater Remediation (Hill AFB)
 - Passive Treatment Wall and Dual Phase Soil Vapor Extraction (Lowry AFB)

REUSE STANDARDS AT CLOSING BASES

Mr. Bateman: Do any reuse standards exist for environmental cleanup of bases to be closed as a result of actions taken by the Base Closure and Realignment Commission? If these standards exist, what efforts are being made to meet industrial or residential reuse standards?

Ms. Goodman: There are no cleanup standards that are established based upon land use. However, environmental regulators select remedies that are protective of human health and the environment and sometimes do assume that the current use for a property will be the future use. There is no statutory requirement for this and no established process for ensuring community and redevelopment authority concerns are adequately addressed. Last year's Superfund Reform proposal contained provisions that would have incorporated future land use into the remedy selection process. Future land use would be considered in the risk assessment when determining the exposure pathways and again in the record of decision when analyzing the remedial alternative compatibility with future land use.

COST TO COMPLETE CLEANUP FOR BRAC, FUDS, AND OPERATIONAL INSTALLATIONS

Mr. Bateman: What is DoD's current estimate to clean up DoD installations in terms of active, closing or realigned, and formerly used defense sites?

Ms. Goodman: Our best estimates for site costs of analysis and cleanup are:

Operational Installations ("Active")	\$ 23.5 billion
Closing bases	\$ 3.0 billion
Formerly Used Defense Sites	\$ <u>4.5 billion</u>
Total	\$ 31.0 billion

These estimates are based on figures in the Defense Environmental Restoration Program's Annual Report to Congress for fiscal year 1994. This does not include: program administration expenses, support to the Defense and State Memorandum of Agreements Program and Agency for Toxic Substances and Disease Registry Program, and potentially responsible party costs.

TOTAL THIRD PARTY LIABILITY

Mr. Bateman: What is DoD's estimate of its known and potential liabilities at contractor or third-party sites?

Ms. Goodman: Projecting annual, historic expenditures for the Department's liability at potentially responsible party (PRP) sites, the best estimate that DoD has at this time is approximately \$800 million. PRP sites are defined as sites that DoD has never owned, but has a responsibility for cleanup, such as a commercial facility where DoD waste was disposed and now requires cleanup. The Department has not attempted to determine where future liability may exist or to calculate an anticipated actual requirement.

EFFECT OF FUNDING DECREASE FOR ENVIRONMENTAL PROGRAM

Mr. Bateman: If funding for the environmental program is decreased, what are the areas that would be affected, and what would the effect be on human health and the environment?

Ms Goodman: If funding for environmental restoration is decreased, projects planned to protect human health and the environment would have to be cut. Low relative risk sites would be cut first, then medium and finally high risk sites.

High, medium, or low relative risk evaluations are comparative. Cutting low and medium relative risk sites cannot be done, however, without potentially affecting human health and the environment. For example, low risk sites contain contaminant levels that are up to two times the acceptable safe standard and have the potential to migrate to a point of exposure that can greatly affect health and the environment. By comparison, high risk sites have contaminant levels more than 100 times the acceptable safe standard and directly threaten drinking water supplies of local vulnerable communities.

The Department's environmental compliance budget only includes those requirements where the installation is already out of compliance or will be out of compliance within the current budget year. Any cut in this minimal level of funding could result in the inability to provide safe drinking water, to treat contaminated water, to remove hazardous waste from working areas, and to control hazardous air pollutants. Inability to perform any of these environmental programs would expose the men and women living and working on military installations to toxic pollutants. In addition, it would open the installation to fines and penalties from non-compliance with the law.

DOD ENVIRONMENTAL PROGRAM CONCERNS

Mr. Bateman: What are your most pressing problems and concerns with the environmental program today?

Ms Goodman: Our most pressing problem is the need for a stable funding level for the DERA program. For each of the past three fiscal years, FY 1993 through 1995, Congress has reduced the DERA appropriation by \$300 to \$400 million, more than 15% of our request. Recently, Congress rescinded an additional \$300 million from the FY 95 DERA account. This has required the Service and Defense agency remedial project managers to renegotiate milestones with EPA and state regulators, and has delayed important remediation. When Congressional cuts force milestone adjustments, existing plans are scrapped, the program must be reworked and turmoil results. The funding cuts have been so significant that each Defense Component has been forced to review their entire program before proceeding. The cleanup program is not like a real property maintenance or construction program where individual projects are waiting on the shelf to be awarded. Instead, the cleanup work has milestones that depend on the completion of a preceding effort to be completed with regulatory concurrence before proceeding to the next step. The impact of funding cuts puts the planned phasing for executed projects into upheaval, and detracts from our ability to make steady progress.

Another pressing problem is the need to optimize our investment in pollution prevention and environmental technology. For example, we should make pollution prevention the first choice for meeting compliance provided we get a good payback on the investment. Only as a last resort should we employ conventional compliance and expensive conventional technologies to meet environmental regulations and standards.

PRIORITIZING CLEANUP ACTIVITIES

Representative Weldon: One of the complaints about DoD's environmental program has been that the department has not done a good enough job of prioritizing the clean up work. In other words, not all of the most contaminated sites get cleaned up first. What action have you taken to prioritize the Department's clean up activities? Would each of the service representatives also address what their respective services are doing to prioritize clean-up activities?

Ms. Kandaras: We have developed a number of tools to better prioritize the Department of the Navy cleanup activities. Perhaps the most important is the use of relative risk ranking. Relative risk considers the relationship between the contaminant(s), the pathway(s) the contaminant may travel, and the receptor(s), i.e., human, animal and plant, that can be adversely affected. Risk management then combines analytic and subjective factors, along with input from regulators and the community, into a relative risk or "high," "medium," and "low." The Department of the Navy led a DoD effort to establish relative risk standards for use by all DoD components. We have scored all of our non-BRAC sites according to a relative risk category, and are working to do so on all BRAC sites.

We now have a "bottom-up," site-by-site estimate for the 2,280 active sites in our program. We have long felt that the remedial project manager who manages the day-to-day cleanup decisions at an installation has the best grasp of what it will cost to clean up the base. Our cleanup cost estimate, \$5.2 billion for all active Navy and Marine Corps sites (excluding BRAC 88, 91, 93 locations) is based on interviews with each remedial project manager as to the nature and extent of contamination. We then filtered these estimates using a modified Air Force cost model to standardize costs. The result is an estimated cost for each individual active site in our program, which we used to build our FY-96/97 budget request. We will update our cost-to-complete data as new information becomes available.

Our Five-Year Cleanup Plan describes the status of cleanup at each of our installations, including BRAC locations. Most importantly, it serves as a road map, and a measurement tool, for what we want to accomplish at each individual site over the next five years. Finally, we have actively sought the participation of all stakeholders through our outreach efforts. Restoration Advisory Boards, jointly chaired by a Navy official and a citizen from the community, are open forums for the community to better understand the nature and severity of contamination and have a voice in the decision-making process.

IDENTIFYING COST EFFECTIVE CLEANUP

Representative Weldon: What efforts are being made to identify the most cost-effective means of remediating federal sites?

Ms. Kandaras: In the Department of the Navy, the Naval Facilities Engineering Command has a comprehensive program to identify and implement the most cost effective cleanup methods. Our remedial project managers are familiar with the cost and performance of available technologies. The contractors we hire to perform investigations and actual cleanup are staffed with experienced and knowledgeable engineers and scientists.

We work closely with other services, EPA, states, and private industry to identify and use cost effective techniques. For example, the Navy has been designated the lead for petroleum contamination under the National Test Sites Program in cooperation with the Department of Energy, EPA, and the Western Governors Association. Two Navy installations have also been designated pilot installations for the Navy Environmental Leadership Program. At these installations, innovative technologies are tested in cooperation with other agencies and private industry. We have cooperative efforts with the Clean Sites, Inc., an industry based organization dedicated to faster, cheaper, better cleanups. We are working with EPA's Superfund Innovative Technology Evaluation (SITE) Program, the Emerging Technologies Program, the EPA's Demonstration Program, the Installation Restoration Technology Coordinating Committee, the Department of Defense laboratories, and historical cleanup actions to minimize costs by improving remedy selection.

In summary, I believe the Department of the Navy is on the cutting edge of cost effective, innovative cleanup technology.

REMEDIATION COST CRITERIA

Representative Weldon: Do the military services use specific cost criteria in evaluating different remediation options for each site? Is the remedy's suitability for reuse a consideration?

Ms. Kandaras: Yes, the Navy uses specific cost criteria in evaluating different remediation options for each site. We evaluate contractor evaluations and options against historical information and new techniques. The services collaborate on costing tools. Most recently, the Navy adapted and extended an Air Force method in order to perform a complete "bottom up" cost estimate for all sites in the Department. Working with other agencies, we are also about to put into place a work breakdown structure that will capture actual cleanup costs for specific remedies in order to make more precise estimates for other sites. As a result of these efforts, our level of confidence in budget estimates continues to increase. With regard to remedy selection and reuse, the Department of the Navy's policy is to closely coordinate the remedy selection with current and projected land use. Our ability to tie these two factors together would be enhanced by a clarification in CERCLA. This change has been advanced by the Administration both in this Congress and last session.

MORE COST EFFECTIVE CLEANUP REMEDIES

Representative Weldon: In addition to traditional forms of clean-up of petroleum hydrocarbons such as incineration or landfilling, does your service consider more cost-effective remedies such as in-situ bioremediation, bioventing, or oil vapor extraction?

Ms. Kandaras: Yes, we are not only considering such techniques but also using them. The Navy is the lead service for petroleum remediation under the National Test Sites Program. At the Naval Construction Battalion Center in Port Hueneme, CA we have a number of innovative petroleum remediation technologies under investigation. In situ bioremediation, ex situ bioremediation and bioventing are all being used in various locations. At Fleet and Industrial Supply Center, Craney Island Fuel Terminal implemented an Engineered Biological Treatment Cell to initially treat over 18,000 cubic yards of petroleum contaminated soil with enzyme activated land farming. The bioremediation treatment cell will be used to treat approximately 225,000 cubic yards of material over the life of the facility, at a substantial cost savings to the Navy.

NAVY BIOREMEDIATION SITES

Representative Weldon: The Air Force has undertaken bioremediation projects at 190 demonstration sites in the U. S. and Europe. How many bioremediation sites has the Navy undertaken?

Ms. Kandaras: The Navy applied bioremediation technologies in over 6 percent of cleanup actions in FY-93 and over 16 percent in FY-94. We expect bioremediation technologies to be applied at over 20 percent of hazardous waste cleanups in FY-95 and continued additional uses in future cleanups of hazardous waste sites.

COMPETITIVE BIDDING FOR CLEANUP WORK

Representative Weldon: At sites in which the Navy has selected bioremediation as a remedy option, is the work being open to competitive bid by outside contractors who may be able to perform the work more inexpensively?

Ms. Kandaras: The Navy uses outside contractors for virtually all of its cleanup work. A series of Remedial Action Contracts, or RACs, have been awarded through competitive bidding by the Naval Facilities Engineering Command in various regions. Navy personnel administer these contracts and our technical personnel participate with other agencies in monitoring test and development activities.

CONTRACTING OUT BIOREMEDIATION

Representative Weldon: Are you aware that the Navy is currently spending \$1 million to construct a building to house a bioremediation project at one of its facilities so that they can perform the remediation project themselves? Are you also aware that private contractors have estimated that they could bioremediate this site for \$50 per cubic yard, whereas it will cost the Navy approximately \$100 per cubic yard to treat it themselves? It would appear that the petroleum hydrocarbons on this base could be treated by private contractors for less than the cost of the construction of the building. Would you please explain why the Navy has not even considered contracting out bioremediation?

Ms. Kandaras: We are unaware of a \$1 million project to construct a building to house a bioremediation project so that we can perform the remediation project ourselves. Most bioremediation projects are performed by contractors. On some occasions, we use staff and equipment at the installation to "turn" the contents of the bioremediation pile. We will gladly pursue the specifics of a particular project if provided information on the military base and site in question.

SHIPYARDS ACHIEVING HAZARDOUS WASTE GOAL

Representative Weldon: The Navy had a goal to reduce hazardous waste in public shipyards by 50 percent by fiscal year 1992. Did the Navy achieve this goal? Would you please explain the current hazardous waste reduction program within the Navy?

Ms. Kandaras: Yes, the Naval shipyards did meet the 1992 reduction goal of 50 percent. The baseline of hazardous waste disposed in 1987 was measured at 12,844 tons, while in 1992, the shipyards only disposed of 3,999 tons.

We are reducing hazardous waste (HW) generation and disposal by implementing a combination of procedures and processes including eliminating or reducing the use of hazardous material (HM) at the source by changing the process, requirement or materials used; by substituting a less hazardous/toxic HM in the process; by recycling/recovery and reuse of HM; and by reducing or eliminating excess and expired HM. The principal vehicle for this reduction is the Navy pollution prevention (P2) program.

One specific example is institutionalizing an HM life-cycle management program called the Consolidated Hazardous Material Reutilization and Inventory Management Program (CHRIMP). CHRIMP system is based on the concepts of centralized control and cradle-to-grave management of HM and HW. It accepts excess or partially used HM from work centers at no charge and issue it free to other authorized work centers both ashore and afloat. The results in significant reductions in HM procurement and HW disposal.

SHIPYARD ENVIRONMENTAL COSTS

Representative Weldon: With reference to the public shipyards baseline assessment of funding required for compliance with all environmental laws and regulations, what are the funding requirements by shipyard?

Ms. Kandaras: The following represent total environmental DBOF costs by shipyard included in our FY-96/97 President's budget submission. It excludes any military construction and operations and maintenance funds used by the shipyards.

Shipyard	(DBOF \$ Millions)			
	FY-94	FY-95	FY-96	FY-97
Charleston NSY, SC	0.7	0.7	0	0
Mare Island NSY, CA	7.3	6.2	0	0
Pearl Harbor NSY, HI	4.3	4.1	4.4	4.1
Long Beach NSY, CA	6.1	5.4	5.5	5.6
Norfolk NSY, VA	12.8	11.1	10.0	10.6
Philadelphia NSY, PA	1.9	1.0	0	0
Portsmouth NSY, NH	5.7	6.0	5.9	5.9
Puget Sound NSY, WA	17.8	22.7	18.7	18.3
TOTAL	56.5	57.3	44.3	44.4

ENVIRONMENTAL RESEARCH AND DEVELOPMENT

Mr. Weldon: What guidance from DOD do the services receive to plan their environmental R&D programs?

Mr. Walker: The Department of Defense (DOD) has developed the DOD Environmental Technology Requirements Strategy. This document contains DOD environmental research and development strategic planning guidance along with a compendium of environmental user requirements from the Services. DOD has directed the Services to build environmental research, development, testing and evaluation programs which address the priority needs of the user community and leverage, where possible, the investments of other Federal agencies, as well as the private sector.

Mr. Weldon: Are the services' environmental R&D programs intended to "fix" individual environmental problems unique to a given service or is there an honest attempt to systematically develop a coordinated program?

Mr. Walker: In order to eliminate redundant research among the Services and to leverage existing work, the Tri-Services Environmental Quality Research and Development Strategic Plan was initiated in 1992. A second version of the "Green Book" is currently being published. This document contains descriptive summaries and research and development roadmaps for each environmental technology or "thrust" area. The Green Book contains the research and development projects of all the Services with funding levels, deliverables, milestone dates, points of contact, and user requirements being addressed. Permanent program managers and regularly scheduled program reviews facilitate the coordination of projects among the Services. The Tri-Service Requirements Strategy also provides the consolidated and prioritized user requirements intended to drive the development of coordinated research and development programs which will address needs of many users from all of the Services.

Mr. Weldon: How are the services' R&D environmental activities interfaced and coordinated with EPA and DOE programs?

Mr. Walker: There are several initiatives to interface and coordinate Department of Defense (DOD) environmental research and development programs with the Environmental Protection Agency (EPA) and the Department of Energy (DOE). The Strategic Environmental Research and Development Program is a cooperative program with DOD, EPA and DOE oversight and participation. In a new initiative this year, the Environmental Security Technology Certification Program is sponsoring the matching of DOE environmental projects for demonstration/validation at DOD sites. Under Executive Order 12856, Pollution Prevention Interagency Task Force, a subcommittee was organized to integrate pollution prevention research and development efforts among Federal agencies. The Interagency Environmental Technology Office was established to facilitate technology transfer among Federal agencies and with the private sector. The Federal Remediation Technologies Roundtable, consisting of the Department of Defense, Environmental Protection Agency, Department of Energy and Department of Interior has developed the "Remediation Technologies Screening Matrix and Reference Guide" to summarize remediation technologies developed by all of these agencies.

CLEANUP ACTIVITIES

Mr. Bateman: One of the complaints about DOD's environmental program has been that the department has not done a good enough job of prioritizing the clean up work. In other words, not all of the most contaminated sites get cleaned up first. What action have you taken to prioritize the Department's clean up activities. Would each of the service representatives also address what their respective services are doing to prioritize clean-up activities?

Mr. Walker: The Army has established a project prioritization system that enables all requirements to compete for funding based on the environmental risk and legal requirement that they address. The system recognizes imminent hazards as top priority and a priority letter code is assigned to each project. Army installations work in concert with regulatory agency and technical support agency contacts to develop the project scope and cost. Subsequently, the installation project managers assign a recommended priority letter code to the project requirement when submitting their annual budget through command channels to the Army Environmental Center (AEC). The AEC develops the proposed Army Budget and works with the installation project managers to establish the proper priority code and project definition to ensure that legal requirements will be met to the maximum extent possible within DOD fiscal guidance. Imminent hazards are not normally programmed. When such hazards are identified, immediate action between the installation and AEC is taken to ensure funding is available. This may necessitate deferral of other program requirements until the next fiscal year but ensures that imminent hazards receive immediate attention.

REMIEDIATING FEDERAL SITES

Mr. Bateman: What efforts are being made to identify the most cost-effective means of remediating federal sites?

Mr. Walker: The Army conducts Feasibility Studies (FS) at all sites where contamination has been released into the environment. The FS is normally conducted during the Remedial Investigation (RI) to characterize the amount and location of contamination in the environment. In the conduct of the FS, a systematic approach is taken to analyze the contaminants in soils and groundwater to determine the concentration and toxicity of the contaminants. Innovative and proven technologies are screened to determine their applicability to the specific site and contaminant of concern. Once screened, remaining technologies may be subjected to additional analysis and field level demonstrations to ensure their ability in treating, containing or eliminating the hazards at the site. The ability to meet legal cleanup levels and adequacy to protect human health and the environment are carefully assessed. Selection of a final cleanup technology is an iterative process with only the most cost-effective technologies surviving the evaluation process. Finally, a proposed plan is prepared, coordinated with appropriate regulatory agencies and presented for public comment prior to final approval for application in a decision document. Some exceptions to the rigorous FS technology screen process exist for more common pollutants such as petroleum wastes. Normally, when underground tanks are determined to exist, they may be removed without going through a formal FS. It has been determined over the years, that removals may be the most cost-effective remedy to commonly incurred pollutants rather than subjecting affected sites to the time and resource consuming FS process. Boilerplate solutions to common problems are known as "generic remedies" and are increasingly gaining regulatory agency and public acceptance.

CLEANUP COST CRITERIA

Mr. Bateman: Do the military services use specific cost criteria in evaluating different redemption options for each site? Is the remedy's suitability for reuse a consideration?

Mr. Walker: The Army develops costs for cleanups based on the characteristics of the site. Cleanup technologies, levels and approach may be different for sites even where the contaminant is the same. Factors that impact on cleanup cost include: existence of air, soil and/or groundwater pathways to human or environmental receptor exposure, toxicity and magnitude of the contaminant(s), specific hydrology and soils characteristics, availability of technologies to effectively remediate or control the hazard, as well as institutional factors such as land use and access control. Costs from similar cleanups and available costing mathematical models are also inputs to the determination of costs for any specific site. Reuse is always a factor in cleanup cost determination in that the remedy must support anticipated reuse both for sites in the Base Realignment and Closure (BRAC) process as well as sites remaining under Army control.

COST-EFFECTIVE REMEDIES

Mr. Bateman: In addition to traditional forms of clean-up of petroleum hydrocarbons such as incineration or landfilling, does your service consider more cost-effective remedies such as in-situ bioremediation, bioventing, or oil vapor extraction?

Mr. Walker: Yes, such alternatives are considered and applied on a site specific determination of the appropriate level of cleanup of Army sites.

Mr. BATEMAN. I would ask that we clear the committee table so we can have our next panel of witnesses seated, and we will proceed as far as we can go until such time as we have a vote.

The next panel consists of Ms. Cindy Williams, Assistant Director for National Security of the Congressional Budget Office; and Mr. David Warren, Director of Defense and NASA Management Issues for the National Security and International Affairs Division of the General Accounting Office.

We welcome you, and I see you have associates with you whom I'll call upon you to introduce.

At this point we would be delighted to begin with the testimony of Ms. Williams.

STATEMENT OF CINDY WILLIAMS, ASSISTANT DIRECTOR FOR NATIONAL SECURITY, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED BY WAYNE GLASS, ANALYST

Ms. WILLIAMS. Thank you, Mr. Chairman, members of the committee. I appreciate the opportunity to appear before you this morning to discuss the Defense Department's environmental program.

CBO conducted a study of DOD's cleanup efforts last year and released the paper that was discussed earlier in January of this year. With your permission, I would like to enter that paper for the record in lieu of a written statement and just summarize our main points here.

Mr. BATEMAN. It will be made a part of the record, Ms. Williams.

Ms. WILLIAMS. Thank you.

With me is Wayne Glass, who was the analyst who wrote that paper.

The Department of Defense, of course, from what we have heard this morning, faces difficult challenges in implementing its environmental cleanup program. First of all, as we have already heard, the scope of remediation work to be done has expanded enormously since the cleanup program began in the mid-1980's, and although DOD believes the scope is now well understood, most of its projects still lack any specific cleanup plan so the scope of work may continue to expand as actual remedies are designed and put into place.

Second, the costs of cleanup have risen steadily as more sites and contaminants have been discovered and as cleanup standards have tightened compared with the ones DOD was planning to meet originally, and as a result CBO believes that even the high cost estimates that DOD projects today may still understate the eventual costs of finishing the job unless significant changes are made in the way we do business.

The challenge facing DOD and the Congress is to find ways to control these costs through improved management, as the Secretary discussed before, through more efficient technologies, perhaps with new approaches to setting standards. Our study offers some ideas along these lines, but before I get into them I'll speak briefly about the dimensions of the cleanup problem.

CBO's study focuses on the cleanup portion rather than the entire environmental budget, so the cleanup portion of DOD's environmental program, including defense environmental restoration

account [DERA], and the cleanup portion of the Base Realignment and Closure account [BRAC].

Since 1984, DOD has spent about \$12 billion on this part of the program to identify, study, and clean up contaminated facilities. Spending in the accounts grew on average by more than 20 percent each year from 1984 to 1994, and it is just now starting to level off.

The Department, as you know, is requesting about \$2.1 billion for DERA and BRAC combined in 1996, about 10 percent less than the Congress authorized in 1995, and, according to DOD's most recent estimate and reiterated this morning by Secretary Goodman, the total cleanup program could end up costing some \$30 billion. Now CBO believes this estimate is actually low, perhaps by billions of dollars, and several factors have led us to this conclusion.

First of all, DOD's cleanup job actually continues to grow both in the number of contaminated sites and the types and extent of contamination that are being found at them. For example, in the mid-1980's DOD estimated it would have to clean up some 400 to 800 contaminated sites. By last year that number had grown to 13,000 contaminated sites, and the number of DOD's most seriously contaminated sites, the ones on the NPL or National Priorities List, has also increased significantly. So where DOD reported 44 listings on the NPL in 1987, last year there were 107.

Although the rate of increase in the number of contaminated sites has slowed considerably in the past few years—and this is something Secretary Goodman brought out—new sites are still being identified every year. Moreover, as the Department has studied and sampled the various contaminated sites, it is discovering that more types of contamination are on them and that they cover a wider area than was previously believed. Obviously, the more complex and extensive the contamination problem is at a given site, the more it is likely to cost to clean it up.

A second factor pushing costs above DOD's current estimates is that so few sites have actual remediation plans in place yet. While more than 95 percent of the sites identified for cleanup have been through initial site inspections and assessments, only about 20 percent have been studied for possible methods of remediation, and only 5 percent have had detailed cleanup plans selected and implemented. The percentages are even lower for sites on the NPL despite the high priority of cleaning them up, so it stands to reason that cleanup costs will continue to grow as more feasibility studies are completed and as specific remediation measures are identified.

A third reason that we expect costs to grow is that cleanup standards are growing more stringent over time. This point was made by Mr. Hefley and discussed at some length by the previous witnesses. The fact is that since national standards don't exist for even the most common contaminants, current laws and regulations generally require DOD to negotiate cleanup standards with EPA or with the States.

Under current law, if standards set by the States are stricter than those of EPA or DOD, the State's standards prevail, and as disagreements over standards have occurred the courts have ruled in favor of the stricter State standards. These stricter standards can increase costs considerably above DOD's original estimates and

have already done so. I'm thinking of the two California bases that were discussed earlier.

Current laws and regulations also favor measures of remediation that are permanent and that support unlimited future use rather than the reasonably anticipated use of a property. This was also brought out earlier. This preference for permanent measures has the effect of imposing stricter standards than might be adopted if remediation measures would be chosen based upon the actual planned usage instead.

Although we expect the size and cost of the cleanup program to continue to grow, funding for the program is no longer increasing. Recent funding hasn't been sufficient to meet the existing cleanup requirements as expressed by DOD, and as a result of congressional reductions from DOD's budget request during the past couple of years CBO understands from Department officials that DOD has actually had to renegotiate existing cleanup agreements in some cases, and that of course costs extra money, and, as we understand from DOD in recent discussions, the rescission package would cause some additional renegotiations, and that would cost some additional money.

Now let me turn to our ideas for controlling costs. First of all, we agree with Secretary Goodman that DOD will benefit from a more comprehensive strategy for managing its cleanup programs, one that sets priorities in an integrated way across the program and then protects the highest priority cleanup efforts from budget adjustments. In this way, high-priority projects could be assured stable funding and schedules. Even overall cleanup funding varied from year to year, and I think the relative risk assessment that Secretary Goodman discussed probably goes a long way along those lines.

The Department could also take steps—and this was brought up by the previous panel—to control near-term costs by delaying some of the difficult and costly remediation projects in cases where they don't pose an immediate threat to human health and safety. By delaying cleanup of some of the most expensive sites—for example, those with ground water pollution, buried ordnance, or chemical warfare materials—DOD could reduce near-term spending substantially, perhaps by billions of dollars over the next decade.

Delays like this, while they would reduce costs in the near term, might actually turn out to contribute to savings in the long term as well, and the reason is that new remediation technologies currently being developed could significantly reduce the costs of cleaning up things like ground water, ordnance, chemical warfare materials, and so on.

According to current DOD estimates, new technologies for cleaning up metals in contaminated ground water could reduce costs from as much as \$40 per thousand gallons to as little as 10 cents per thousand gallons. So the cost savings could be significant if these technologies really get going. Cleaning up unexploded ordnance using new technologies could reduce costs by as much as a third.

Of course delaying these projects could require DOD to renegotiate in some instances, and of course that can cost more money.

DOD believes that these investments in new technologies are vital to controlling long-term costs. DOD's spending for environmental research and development will total only 4 percent of funding for environmental programs in 1996, and only a portion of that 4 percent is going to be devoted to developing new cleanup technologies. Additional investment in this area now could bring big dividends later.

We also think the Congress could help DOD achieve long-term savings by changing the current approach to setting cleanup standards. The Congress could consider legislation revising provisions in existing laws that favor implementing permanent cleanup methods and cleaning to the standards required for unlimited use of remediated property. Restoring a property to pristine condition may not make sense if it is going to be fenced off from public access or if it is going to be used as an industrial plant or used as an airport.

Adjusting cleanup standards according to planned use could reap major savings. In addition, legislation establishing national cleanup standards for certain types of contaminants instead of letting the States—establishing State by State, could eliminate current variations in standards and help hold costs down, and, Mr. Chairman, that concludes my remarks. I would welcome any questions the committee may have.

[The following information was received for the record:]

CBO PAPERS

**CLEANING UP
DEFENSE INSTALLATIONS:
ISSUES AND OPTIONS**

January 1995



**CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515**

NOTE

Unless otherwise noted, all dollar amounts are in 1995 dollars, and all years are fiscal years.

PREFACE

The Department of Defense (DoD) has devoted more than 10 years and \$11 billion to identifying, studying, and cleaning up contamination on thousands of military installations across the nation. During the past decade, the Congress has provided funding for DoD's environmental cleanup program that DoD considers sufficient to meet existing legislative and regulatory requirements. Given the rising costs of cleanup and budget increases in recent years, the department will probably need additional funds beyond those in the current budget plan to continue to meet the program's objectives. If the Congress chooses not to provide funding to meet existing requirements, legislative and regulatory relief may be required to enable the department to proceed with the cleanup program in accordance with cost-effective priorities that protect the health and safety of the population. Meanwhile, the department and the Congress could consider policy alternatives on which to base such priorities.

This Congressional Budget Office (CBO) paper describes the progress of DoD's cleanup program, examines its cost and budget history, and discusses current issues affecting the potential for successful implementation of future remediation efforts. It also discusses various steps that DoD and the Congress could take to control costs in the near and long term. The paper was requested by the Chairman and the Ranking Minority Member of the Senate Committee on Armed Services.

Wayne Glass prepared this paper under the direction of Neil M. Singer; Frances Lussier and Shaun Black provided important assistance. The author appreciates the thoughtful critiques and suggestions of Perry Beider, John Klotz, Bob Oswald, and Vic Weiszek. Many individuals at the Department of Defense, the Army Corps of Engineers, and the General Accounting Office provided helpful information, and their cooperation is gratefully acknowledged. The information, discussion, and analysis contained in the paper, however, remain the responsibility of the author and CBO.

Sherry Snyder edited the paper, and Chris Spoor provided editorial assistance. Cynthia Cleveland and Judith Cromwell prepared it for publication.

Robert D. Reischauer
Director

January 1995

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SUMMARY

Environmental contamination of thousands of military facilities is a costly legacy of the Cold War for which the nation is paying increasing costs. The Department of Defense (DoD) has spent about \$11 billion on investigating, studying, and cleaning up contamination on military bases since 1984 and recently estimated that finishing the job could cost as much as \$30 billion. In 1995, the Congress authorized the department to spend about \$2.5 billion on environmental cleanup projects. According to current plans, the department expects to request another \$2.6 billion in 1996.

The current Administration has undertaken an ambitious, comprehensive plan to clean up defense installations in accordance with federal and state laws and regulations within the constraints of increasingly tight defense budgets. To date, the Congress has been able to authorize sufficient funding to meet DoD's requirements. Given the increasing costs of remediation, however, DoD may not be able to meet the requirements of its cleanup program on schedule and within budgetary projections. The Department of Defense and the Congress could consider alternative approaches to the cleanup program to ensure that the department's most important cleanup requirements are met within increasingly constrained budgetary allowances. This paper outlines the scope and nature of the cleanup tasks that DoD faces and assesses the department's progress and problems in implementing effective remediation actions. The study also discusses near- and long-term strategies for meeting cleanup goals, should the current plan prove unachievable.

SCOPE OF THE CLEANUP PROBLEM

The Department of Defense faces a massive environmental cleanup problem extending to some 27,700 potentially contaminated sites located on more than 9,700 military installations and former defense properties in all 50 states. Most of the contaminated sites are in states such as California, Texas, Alaska, Pennsylvania, and Virginia in which numerous defense facilities are located. The department has determined that many of those sites pose no hazard to public health and safety and require no further cleanup action. As a result, the number of active sites--those being studied and remediated--totaled about 13,200 as of March 1994. After years of study, DoD believes that it has identified virtually all potentially contaminated sites on its property. The

number of such sites, including the most seriously polluted--those that are on the National Priorities List (NPL)--continues to grow each year. DoD manages cleanup efforts at 107 bases that are on or proposed for inclusion on the NPL; those bases are located in 39 states.

The department's cleanup tasks are, for the most part, similar to those found in the civilian sector. With few exceptions such as buried ordnance and mixed waste containing radioactive materials, DoD requires no unique remediation technology to meet its needs. Common contaminants on military bases include petroleum, oil, and lubricants needed to operate and maintain equipment, as well as solvents, heavy metals, paint, acid, asbestos, and pesticides. The types of contaminated sites located on defense properties are also similar to those in the civilian sector. Storage areas, underground storage tanks, landfills, contaminated buildings, and polluted lagoons are characteristic problems for both military and civilian authorities. Consequently, investments by DoD in research and development of new technologies for locating, characterizing, and remediating contamination could have widespread dual-use applications.

The focus of DoD's environmental program during the past 20 years has been on locating and studying the characteristics of contaminated sites. Virtually all of the preliminary work is complete. As of the end of fiscal year 1993, DoD reported that it had finished about 96 percent of its initial assessments. About half of the active sites are now in the middle phase of the cleanup process--the remedial investigation/feasibility study phase--during which the sites are tested and sampled and initial plans for remediation are formulated. Only about 20 percent of DoD's active cleanup sites have completed that phase, however, making it unlikely that the department will achieve its goal of completing all studies by 1996.

Although the department has completed more than a thousand interim cleanup measures needed to protect human health and safety, almost all of the actual cleanup work for all sites, including NPL sites, has yet to be done. As of the end of fiscal year 1993, about 5 percent of all active sites and about 3 percent of the NPL sites had been cleaned up. Actual completion rates could be lower, however, since by the definition of the Environmental Protection Agency (EPA), a site has been "cleaned up" once contamination has been remediated or technology has been put in place and is operational, even though cleanup standards have not yet been achieved.

COST OF THE CLEANUP

Defense spending for environmental cleanup has increased dramatically during the past decade and could necessitate additional increases if current legal and regulatory requirements are to be met. In 1984, DoD spent about \$200 million for environmental cleanup; today's budget is about \$2.5 billion. On average, spending for cleanup has increased 23 percent each year during the past decade while budgets for research, development, and procurement of military weapons have decreased by about 7 percent each year. According to current plans, DoD projects significant reductions in spending for environmental cleanup during the next few years, when many projects will begin the transition from study and analysis to remediation. Until last year, most of the cleanup budget was allocated for studies; cleanup costs first exceeded 50 percent in 1994 when relatively few sites were actually in the final phase of cleanup. Competition for funding among various environmental programs is likely to become increasingly intense during the next several years, requiring trade-offs between meeting near-term cleanup requirements and long-term investments in more efficient cleanup methods.

Changes in DoD's cost estimates and budget plans continue to reveal the high degree of uncertainty that characterizes the cleanup program. In 1985 DoD estimated that completing the cleanup program would cost between \$6.9 billion and \$13.7 billion (1995 dollars). DoD recently estimated that the program could cost about \$30 billion. Annual budget requests have also risen. In 1989, the department estimated that it would need between \$900 million and \$1.2 billion to fund cleanup requirements in 1994; the Congress authorized about twice the higher estimate. Similar trends in cost growth have occurred at individual military bases. The Inspector General of DoD found that average cleanup costs for defense facilities scheduled to be closed were about 60 percent higher than initial estimates.

Although DoD now knows much more about the cleanup job it must do, much uncertainty remains about future costs. For example, each year the department identifies new contaminants on existing sites as well as additional polluted sites. Furthermore, most sites are still in the study phase, and plans to remediate them have yet to be decided, thereby adding to the uncertainty of cost estimates. The time needed to complete studies, analyses, and remediation also remains highly uncertain. Recent court rulings could also drive up costs by leading to stricter cleanup standards than those DoD planned to meet.

ALTERNATIVE STRATEGIES FOR MEETING DoD's CLEANUP GOALS

Given the dramatic growth in spending for environmental cleanup, the limited progress made to date, and the probability that if current cost trends continue, the department will be unable to afford to meet requirements within current budget plans, the Congress and DoD may want to consider various ways to meet the concurrent goals of efficiency and cleanup requirements. In doing so, both near-term and long-term strategies could be useful.

An important first step in meeting near-term needs could be to establish priorities for cleanup and then to rank all contaminated sites on defense installations and former defense properties. Future funding for cleanup could vary from year to year, but high-priority cleanup projects would be assured stable funding. Such guidance could maintain the present policy to remediate first the most seriously contaminated sites that are dangerous to human health and safety. Within that category, however, lower priority would be appropriate for those sites that, although located on NPL installations and technically considered as part of an NPL site, do not present immediate threats to health or the environment. In order to assist in establishing priorities among such sites and other sites that are not on the NPL, the Congress could consider requiring the department to improve its methods of determining the relative hazards posed at each site.

In setting priorities, DoD could also consider which sites at closing military bases would warrant the most immediate attention. DoD could give priority to sites that could be sold and generate revenues to finance other defense cleanup activities and to sites that are likely to generate significant commercial activity to aid in local economic recovery. Indeed, the department could rank the sites based in part on some measure of the relative impact of cleanup activities on the local economy. Under that approach DoD could give priority to cleaning up bases in small communities whose economies have depended heavily on nearby military installations, or to larger communities affected by numerous base closings that, individually, might not be considered to have a significant local economic impact.

The department could also achieve near-term savings by delaying its most difficult and costly remediation projects that do not pose an immediate danger to public health and safety. Cleaning up buried ordnance and groundwater are among the most expensive and difficult remediation tasks. DoD could reduce near-term spending by billions of dollars by delaying remediation for sites contaminated with such materials. The department

would have to determine at which sites cleanup could safely be delayed before postponing cleanup activities.

A similar approach could apply to remediating groundwater sites. Potential near-term savings from delaying groundwater cleanup could total hundreds of millions of dollars. Such delays, however, could in some cases require renegotiating existing interagency agreements between DoD, the Environmental Protection Agency, and the states.

The department could achieve long-term savings by developing more efficient technologies while delaying the most difficult and expensive types of cleanups and perhaps other types of remediation. Data from laboratory and field tests indicate that emerging technologies could achieve significant savings in cleaning up a wide variety of contaminants. Although DoD has increased its spending on research and development (R&D) of new cleanup technologies, in 1994 it allocated about 6 percent of its environmental budget for that purpose. According to DoD's strategic plan for research and development, many R&D projects remain unfunded. Additional R&D funding could help to reduce long-term costs, but it should be examined for redundancy with other R&D projects funded either by the Department of Energy or EPA.

A new approach to setting cleanup standards could also contribute to achieving long-term savings. Current legislation and regulations favor the stricter cleanup standards when agencies disagree over appropriate cleanup goals. They also favor using permanent measures of remediation, which, when combined with stricter standards rather than the reasonably anticipated use of a property, could support unlimited future use. The Congress could consider legislation that approved using more flexible standards or, alternatively, that adopted less restrictive standards on a generic basis for various types of contaminants. The latter would create uniform cleanup standards for all federal EPA regions and could preempt disagreements that now occur as a result of differing standards required by the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation, and Liability Act.

CHAPTER I

INTRODUCTION

The Cold War era focused U.S. defense efforts on building, training, equipping, and operating a military force to deter the Soviet Union and Warsaw Pact from initiating a military conflict. The history of the arms competition between East and West is well known, but awareness of the hidden costs of the Cold War has evolved only slowly. It is increasingly clear that the environmental contamination of the Department of Defense's (DoD's) military installations, which affected thousands of bases and communities throughout the nation, is a costly legacy of the Cold War era. Cleaning up that legacy has become a national priority.

The current Administration has committed itself to pursuing environmentally conscious defense programs and policies and has undertaken an ambitious, comprehensive plan to clean up the nation's military installations. However, it faces serious difficulties in achieving DoD's cleanup goals within existing schedule and budget constraints. DoD will probably not be able to meet the objectives of its cleanup program on schedule and within budgetary plans. The department and the Congress have therefore begun considering alternative approaches for overcoming various cost and schedule constraints.

DoD initiated a major environmental cleanup program in 1975 when it established the Installation Restoration Program to study and clean up contaminated sites located on defense installations. Later, DoD integrated that program into a more comprehensive one, the Defense Environmental Restoration Program (DERP).¹ The Congress authorized DERP in 1984 and at the same time established the Defense Environmental Restoration Account (DERA) to ensure visibility for the program and to encourage sufficient funding for environmental cleanup of defense facilities.

Funding for DERA has grown from about \$200 million in 1984 to over \$2 billion in 1995. Total funding for cleanup in 1995 is about \$2.5 billion, including DoD's request for funds to clean up bases affected by recommendations of the Defense Base Closure and Realignment Commission. Although the department's plans call for a reduction in funding over the next

1. The Defense Environmental Restoration Program includes the following programs: Hazardous Waste Disposal, Building Demolition/Debris Removal, Other Hazardous Waste, and the Installation Restoration Program. Funding for those programs is allocated to the Defense Environmental Restoration Account.

few years, budget requests could continue to grow if DoD is to meet the current cleanup plans and requirements.

Cleanup costs are likely to grow for several reasons. First, much remains unknown about the nature and scope of work to be done. Although DoD has made considerable progress in identifying and characterizing contaminated sites nationwide, it continues to discover new sites each year and to find out that some sites are more contaminated than originally thought. Even now, about 20 years after DoD established a cleanup program, the department is still primarily involved in locating and characterizing hazardous materials at its facilities. Actual cleanup activities are under way at very few sites; permanent remedial actions, for example, are under way at only 333 of some 10,400 of DoD's most hazardous sites.

Cleanup standards also have an effect on the ultimate cost of remediation; stricter standards than those preferred by DoD can increase costs considerably beyond original estimates and have done so in the case of cleaning up groundwater at Mather and George Air Force bases in California. National standards do not exist for the most common contaminants; therefore, DoD must negotiate cleanup standards for its most contaminated sites with the Environmental Protection Agency (EPA) and the affected state. Negotiated standards could be stricter--and more expensive--than those underlying DoD's initial cost estimates. Under current legislation, if standards set by the state exceed those of EPA or DoD, the state standards must be met. In fact, disagreements over standards have occurred, and the courts have ruled in favor of state-sponsored standards that could result in higher costs than anticipated for cleaning up defense facilities such as the Rocky Mountain Arsenal.²

Uncertainty in estimating costs has also contributed to unanticipated cost growth for cleanup and is likely to continue to do so. DoD's initial cost estimates for the cleanup program were not supported by extensive research or analysis and have proved overly optimistic. In 1985, for example, DoD estimated that cleaning up all hazardous waste sites would cost between \$7.0 billion and \$13.7 billion.³ Recently, DoD officials estimated that completing the program could cost about \$30 billion.⁴ Of course, the Defense

2. General Accounting Office, *Environmental Cleanup: Too Many High Priority Sites Impede DoD's Program*, GAO/NSIAD-94-133 (April 1994), pp. 23-24.

3. General Accounting Office, *Hazardous Waste: DoD Estimates for Cleaning Up Contaminated Sites Improved but Still Constrained*, GAO/NSIAD-92-37 (October 1991), p. 3.

4. General Accounting Office, *Environmental Cleanup*, p. 6.

Department knows considerably more about the nature and scope of the cleanup work to be done than it did 10 years ago, but significant uncertainty exists even for more recent estimates. The General Accounting Office observed that DoD estimates were prepared using a "top-down" approach based on historical costs for various phases of the cleanup process, not on the estimated cost for individual sites.⁵

Cleanup costs have also increased beyond initial estimates because early plans for cleanup did not fully consider the costs of remediating hundreds of bases that are to be closed. In its first round of recommendations in 1988, the Defense Base Closure and Realignment Commission did not require precise cost estimates for cleaning up bases, because the government was liable for cleanup costs under any circumstances and such costs would not have affected the long-term savings to be gained by closing a facility. DoD currently estimates that cleaning up the bases already directed to be closed will cost about \$4.3 billion through 1999. Next year, the department will decide to close additional bases, which could add significantly to the total cleanup cost.

Given the increasing costs of the cleanup program and the legislative and budgetary constraints that govern its future, the time is right to consider various approaches to ensuring the future affordability of cleaning up the nation's defense facilities. This paper seeks to assist the Congress by reviewing DoD's progress in cleaning up its facilities, highlighting the major issues that affect the efficiency and costliness of the cleanup program, and outlining various ways to reduce program costs.

⁵ General Accounting Office, *Federal Facilities: Agencies Slow to Define the Scope and Cost of Hazardous Waste Site Cleanups*, GAO/RCED-94-73 (April 1994), p. 23.

CHAPTER II

DoD's EXTENSIVE AND COMPLEX CLEANUP TASKS

Environmental contamination is widespread among active and former military facilities and constitutes a formidable cleanup task for the Department of Defense. DoD estimates that it is responsible for about 27,700 contaminated sites that could require remediation. Those sites are dispersed among thousands of bases to be cleaned up through DoD's Installation Restoration Program and on formerly used defense sites (FUDS) located nationwide. As more research is done, the size of the potential cleanup task continues to increase significantly each year.

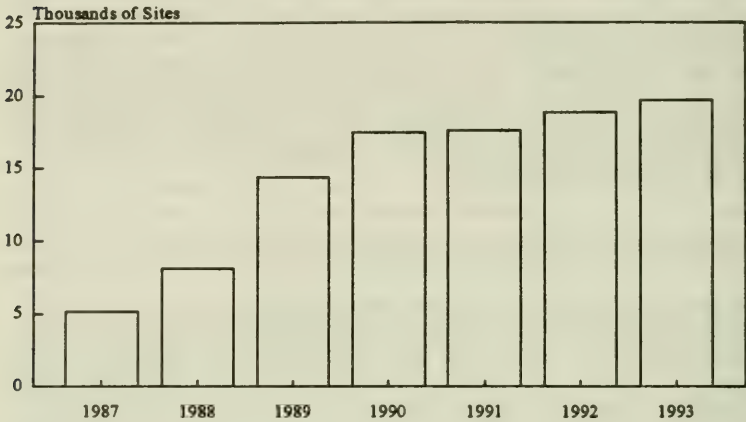
ESTIMATES OF POTENTIALLY CONTAMINATED SITES

The number of potentially contaminated sites identified by DoD on active military installations has increased dramatically--almost 25-fold--during the past decade. Most of the increase occurred during the late 1980s when DoD began a comprehensive program to locate and investigate potentially contaminated sites. For example, in 1985, DoD estimated that some 400 to 800 sites would require remediation.¹ Two years later, the department reported over 5,000 sites.² In the following year, it reported over 12,000 sites.³ In recent years, the rate of increase has begun to slow, however; according to DoD, the total number of sites included in the Installation Restoration Program had increased by only about 5 percent during fiscal years 1992 and 1993, from 18,795 sites to 19,694 (see Figure 1).

The number of the most seriously contaminated areas identified by DoD--those listed on the National Priorities List (NPL)--has also increased dramatically. (NPL sites are those that score above 28.5 according to the Hazard Ranking System, an evaluation system used by the Environmental Protection Agency to measure the toxicity of contaminants; their mobility through air, water, and soil; and the potential danger they pose to the health

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1. General Accounting Office, *Hazardous Waste: DoD Estimates for Cleaning Up Contaminated Sites Improved but Still Constrained*, GAO/NSIAD-92-37 (October 1991), p. 3.
 2. Department of Defense, Defense Environmental Restoration Program, *Annual Report to Congress for Fiscal Year 1987* (March 1988), p. 6.
 3. General Accounting Office, *Hazardous Waste*, p. 3.

FIGURE 1. NUMBER OF POTENTIALLY CONTAMINATED SITES IN DoD's INSTALLATION RESTORATION PROGRAM, 1987-1993



SOURCE: Congressional Budget Office using data from the Department of Defense, Defense Environmental Restoration Program, *Annual Report to Congress*, Fiscal Years 1987-1994.

of the local population.) Between 1987 and 1992, that number rose from 44 to 101, an increase of almost 130 percent. That rate has since slowed--to about 6 percent during the 1992-1993 period, at the end of which DoD had 107 listings on the NPL (see Figure 2).⁴

DoD has also identified an increasing number of potentially contaminated sites on former military properties that the department remains responsible for remediating. The increase in the number of formerly used defense sites, however, has been less dramatic than that of other categories of sites. At the end of 1993, DoD reported about 8,000 contaminated FUDS, up from about 7,200 in 1987--an increase of about 11 percent.

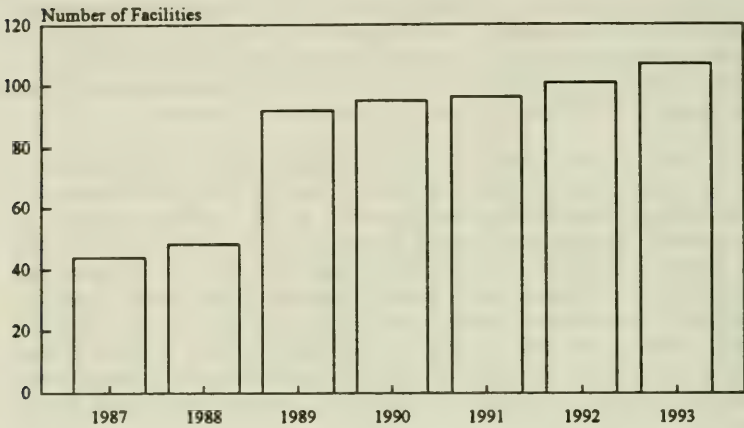
DoD's cleanup task, though massive by any standard, might prove to be less formidable than the preceding numbers suggest. Of the 19,694 potentially contaminated sites that DoD has identified on active military facilities, the department has completed cleanup actions at 570 sites and determined that no further action is necessary at more than 8,600 sites. That means that 10,439 sites, or slightly more than 50 percent of the total number of potentially contaminated sites on operational military installations, will require further work. DoD also estimates that 2,815 active FUDS at which cleanup actions have been ongoing require further remediation. As a result, a total of approximately 13,250 sites--by DoD's count--will require additional cleanup work.

The number of sites actually requiring remediation could be higher than DoD's estimate, however, since the department's finding that no further cleanup action at a site is necessary may be challenged by the Environmental Protection Agency, the states' regulatory authorities, or both. If those organizations disagree with DoD's determination, the department could be required to proceed with remediation activities that it had previously concluded were unnecessary.

Contaminated sites are located at 1,722 installations in all 50 states. Not surprisingly, the states most affected are those in which defense plays a significant role. California has more than 2,500 contaminated sites on some 150 installations and leads the nation with 19 NPL sites. Texas has almost 1,100 sites and Alaska nearly 900 sites. More than 700 sites each are located in Pennsylvania, Virginia, New York, and Florida (see Table 1).

4. A listing on the NPL generally corresponds with an installation. Many individual contaminated sites, however, may exist on an installation that is listed. According to DoD, about 5,500 contaminated sites are located on installations listed on the NPL.

FIGURE 2. DEPARTMENT OF DEFENSE FACILITIES ON THE NATIONAL PRIORITIES LIST, 1987-1993



SOURCE: Congressional Budget Office using data from the Department of Defense, Defense Environmental Restoration Program, *Annual Report to Congress*, Fiscal Years 1987-1994.

TYPES OF CONTAMINANTS AND SITES REQUIRING CLEANUP

With the exception of ordnance and explosive chemicals, the contaminants at DoD facilities are similar to those found on civilian property. The most common contaminants—the petroleum, oil, and lubricants used to operate and maintain military equipment—have been identified at more than 5,300 DoD sites. Solvents, heavy metals, and paint have been found at thousands of sites. Other common hazardous materials such as acid, asbestos, and pesticides are also found on military bases. The 10 most common types of contaminants found at DoD sites are listed in Table 2.

The types of contaminated sites found on defense facilities are also similar to those found in the civilian sector. DoD reports more than 3,000 contaminated storage areas, about 2,700 underground storage tanks, and more than 2,000 landfills (see Table 3). Thousands of spill areas, surface and subsurface disposal areas, and contaminated buildings must also be cleaned up. Hundreds of polluted lagoons, waste treatment plants, and burn areas dot DoD's landscape. Training areas for fire fighting and aircraft accidents, which require extensive remediation efforts, are also common to military facilities. Most of the contaminants at those sites can be cleaned up using the same technologies that are used in the civilian sector.

TABLE 1. STATES WITH THE LARGEST NUMBER OF CONTAMINATED DEFENSE SITES

State	Sites Under the Installation Restoration Program	Formerly Used Defense Sites	Total
California	2,491	60	2,551
Texas	1,010	61	1,071
Alaska	700	196	896
Pennsylvania	817	39	856
Virginia	777	11	788
New York	686	43	729
Florida	681	28	709
Alabama	645	21	666
Illinois	583	50	633
Maryland	567	19	586

SOURCE: Congressional Budget Office using data from the Department of Defense, Defense Environmental Cleanup Program, *Annual Report to Congress for Fiscal Year 1993* (March 31, 1994).

Contaminated sites of types rarely found in the civilian sector are less numerous but still constitute a major challenge for the DoD cleanup program and may require the development of new technologies for their remediation. DoD reports that unexploded ordnance and munitions, for example, exist on some 220 sites; explosive and ordnance disposal areas have been located at another 268 sites.

SPECIAL PROBLEMS POSED BY UNEXPLODED ORDNANCE AND CONTAMINATED GROUNDWATER

Cleaning up unexploded ordnance and chemical warfare materials is among the most difficult, dangerous, time-consuming, and expensive tasks DoD faces. The U.S. Army Corps of Engineers has identified almost 1,700 sites on which these hazardous materials have been reported.

Current technology to remediate buried ordnance is time consuming and costly. Most ordnance sites are surveyed by operators on foot using hand-held metal-detecting equipment. Bulldozers and specially protected heavy equipment are used to dig up buried ordnance and transport it to facilities where it will be de-armed or exploded. Some ordnance sites, such as the

TABLE 2. MOST COMMON TYPES OF CONTAMINANTS
ON DEFENSE FACILITIES

Type of Contaminant	Number of Sites
Petroleum, Oil, Lubricants	5,324
Solvents	1,857
Heavy Metals	1,344
Paint	1,017
Ordnance Components	620
Polychlorinated Biphenyls	606
Acid	555
Refuse Without Hazardous Waste	429
Explosive Chemicals	405
Pesticides	402

SOURCE: Congressional Budget Office using data from the Department of Defense.

former naval artillery practice range at Kahoolawe, Hawaii, are located in remote areas with extremely difficult terrain. Other sites are wooded and difficult to survey.

Experts have testified that buried ordnance sometimes migrates toward the surface over time, so that remediation may be effective only temporarily before an area must be cleaned again. Ordnance sites that have been remediated to a specified depth thus may require periodic monitoring to ensure that undetected ordnance, or ordnance buried below the level that was cleaned up, does not migrate to the surface and become a hazard.

Cleaning up buried ordnance is also among the more expensive remediation tasks the department must perform. DoD recently estimated that, using current technology, it costs about \$65,000 per acre to survey and remediate a site with unexploded buried ordnance. The Army Corps of Engineers estimates that tens of thousands of acres will require remediation. Cleanup costs for buried ordnance and chemical warfare materials could total several billion dollars.

TABLE 3. MOST COMMON TYPES OF CONTAMINATED SITES ON DEFENSE FACILITIES

Type of Site	Number of Sites	Number of Active Sites ^a
Storage Areas	3,479	994
Underground Storage Tanks	2,689	1,485
Landfill	2,016	1,402
Spill Areas	1,904	1,273
Surface Disposal Areas	1,475	874
Disposal Pit/Dry Well	849	640
Contaminated Building	709	309
Oil/Water Separator	573	149
Surface Impoundment/Lagoon	557	430
Fire/Crash Training Area	532	401

SOURCE: Congressional Budget Office using data from Department of Defense, Defense Environmental Cleanup Program, *Annual Report to Congress for Fiscal Year 1993* (March 31, 1994), p. 40.

a. Sites at which study, design, or cleanup actions are under way or those awaiting a decision that cleanup work is complete.

Remediation of groundwater remains one of the department's most vexing problems. Groundwater at many DoD facilities is contaminated by trichloroethene, a hazardous material found in solvents used for cleaning equipment. Although the time and money required to remediate groundwater vary greatly according to the cleanup standard that is set, current cleanup technology is slow and costly. Determining the location and extent of contamination requires expensive wells for sampling and monitoring the pollutants. Current systems that pump water from the ground and treat it with scrubbing devices can take years, even decades, to achieve cleanup standards. Scientists believe that some groundwater cannot be permanently or entirely cleaned no matter how long it is treated.⁵

The potential total cost of remediating groundwater on defense facilities is unknown. Although DoD currently plans to remediate 113 sites, it is unable to estimate the total amount of groundwater that must be treated. But characterizing and cleaning groundwater are expensive tasks that could cost billions of dollars by the time the department has studied the sites, put remediation technology in place, and cleaned up groundwater to standards.⁶

DoD has also identified about 130 sites that could be expensive and difficult to remediate because they contain low-level radioactive waste or mixed waste. Since such wastes can be hazardous to human health and safety, they require special handling and treatment. The Department of Energy estimates that the cost of cleaning up radioactive waste buried in trenches using current technology ranges from \$14,000 to \$26,000 per cubic meter.⁷

HOW MUCH REMAINS TO BE DONE?

Although DoD has made considerable progress in identifying its environmental problems since the cleanup program began almost 20 years ago, much work remains to be done in both characterizing and cleaning up contaminated defense facilities. DoD has devoted most of its efforts during the past two decades to locating and studying the characteristics of contaminated sites. Having essentially completed the initial investigatory

5. "Some Water Cleanups Not Feasible, Study Says," *Washington Post*, June 24, 1994, p. A3.

6. In 1991, the Department of Defense estimated that, on average, it cost \$6.2 million to remediate a site with contaminated groundwater and about \$0.9 million to operate and maintain the cleanup operation each year. If DoD completed cleanup of a site in 20 years, the average cost of such remediation could approach \$25 million.

7. Congressional Budget Office, *Cleaning Up the Department of Energy's Nuclear Weapons Complex* (May 1994), p. 74.

phase at all its sites, it is devoting most of its current efforts to characterizing contaminated sites and developing technical plans and schedules for cleaning them up. Although DoD has completed more than a thousand interim cleanup measures to minimize environmental threats to health and safety, it has completed relatively few permanent cleanup actions. More and more sites are approaching the cleanup phase, however, and if goals and schedules are met, the cost of remediation will continue to rise.

Phases of the Cleanup Process

Cleanup activities are divided into three major phases: the preliminary assessment/site inspection (PA/SI) phase in which a site is located and initial sampling and analysis are done; the remedial investigation/feasibility study (RI/FS) phase in which further characterization analysis is completed and alternative methods of cleanup are examined; and the remedial design/remedial action (RD/RA) phase in which detailed cleanup plans are chosen and implemented.⁸

Preliminary Assessment/Site Inspection. During the preliminary assessment, defense employees review records and study installations to determine whether contamination exists that may pose a hazard to public health or the environment. Researchers collect information on the source, nature, and magnitude of hazardous substances believed to be released on the facility. As part of the assessment, personnel inspect the property, take samples, and analyze materials to determine whether a site is contaminated. If it is not, the department declares that no further cleanup action is required.

Remedial Investigation/Feasibility Study. This second phase of the cleanup process includes further sampling and analysis to determine the type, quantity, and location of contaminants. Researchers also measure and evaluate the health and safety risks that the contaminants could pose to residents of the facility and to the nearby population. Findings from sampling and analysis suggest possible methods of remediation that DoD considers as it completes a feasibility study.

Remedial Design/Remedial Action. Once the appropriate oversight authorities—including the Environmental Protection Agency, state regulators, and DoD—agree on how to clean up a contaminated site, DoD prepares detailed plans for implementing a remedial action. All cleanup actions that are taken, including in some cases installing equipment used for long-term

8. General Accounting Office, *Hazardous Waste*, p. 9.

cleanup operations, occur during the remedial action phase. Monitoring, maintenance, treatment, and operation of equipment may follow that phase for long-term remediation projects.

Modest Progress Made on Cleaning Up Active Installations and Bases That Are Closing

Overall, DoD has completed most of the work required for the first phase of the cleanup process for sites located on active military facilities and on bases that are being closed. As of the end of fiscal year 1993, DoD had completed about 96 percent of the preliminary assessments required for some 19,694 potentially contaminated sites. As a result of investigations during each phase and of completed cleanups, the department concluded that no further action would be necessary for 9,255 sites--almost 47 percent of the total.

In March 1994, the department reported that it had begun the second phase of the cleanup process at approximately 5,000 sites. However, only about 20 percent of DoD's active sites have completed the intermediate RI/FS phase. The department will probably not be able to achieve the goal it set in 1991 to finish all RI/FS activities by 1996.

The department has cleaned up only a small fraction--about 5 percent--of the contaminated sites needing remediation. Indeed, some of the 571 sites the department has "cleaned up" may not have yet met final cleanup standards. DoD considers a cleanup action complete when it has successfully remediated a hazardous waste problem or when cleanup technology and equipment are put into place and operating. A completed action could include instances, for example, in which technology is in place to remediate groundwater even though cleanup standards have not yet been met.

Evidence indicates, however, that completion rates may be accelerating. Between 1991 and 1992, DoD completed cleanup actions on 44 sites. In 1993, it completed cleanups at 155 sites--three and a half times as many as in the year before.

Progress on Cleaning Up NPL Sites and Formerly Used Defense Sites

DoD is still in the early stages of cleaning up its most highly contaminated sites--many of those located on the 107 military facilities listed on the National Priorities List. Of the 5,500 sites on NPL facilities, about 70 percent are in the PA/SI phase, and about 30 percent have completed that phase.

Relatively few sites have entered or completed the RI/FS phase. As of the end of fiscal year 1993, only 402 contaminated sites on bases on the NPL--about 7 percent of the total--had either started or completed the design phase. Slightly more than 300 sites--about 6 percent of the total--had entered the final (RD/RA) phase of the remediation process. DoD has completed cleanup of 157 sites on NPL facilities, only about 3 percent of the total.

Similarly, DoD has made only limited progress in cleaning up contamination at formerly used defense sites. Most of those sites are still being studied: remedial designs are complete for only about 10 percent, and cleanup work is complete at only about 6 percent. Those figures may not capture the full extent of the work to be done, however, since DoD has not yet determined whether cleanup of many FUDS is necessary and whether the department is liable for implementing cleanup actions. Last year, for example, DoD identified 660 new FUDS that the department could be responsible for remediating.

CHAPTER III

THE MOUNTING COSTS OF CLEANUP

Since 1984, the Department of Defense has spent about \$11 billion on the Defense Environmental Restoration Program and on cleaning up bases scheduled to be closed. Spending on the cleanup program has risen dramatically during the past decade. In 1984, DoD spent only \$200 million; by 1991, annual spending had increased to about \$1.5 billion. This year, the Congress authorized DoD to spend about \$2.5 billion for environmental restoration including funding for cleaning up bases scheduled to be closed.

Funding for environmental cleanup is one of the few areas in which defense spending has increased in recent years. On average, spending for environmental cleanup has risen about 23 percent a year since 1984. In comparison, defense spending on procurement and on research and development during the same period has decreased by an average of about 7 percent each year.

Most environmental spending to date has been allocated for identifying and studying potentially contaminated sites rather than for permanent cleanup. According to the General Accounting Office, DoD allocated about \$2.7 billion (1991 dollars) to the Defense Environmental Restoration Account between 1984 and 1990; almost \$2.3 billion of that amount was spent on environmental cleanup activities. Only about 20 percent (\$465 million) was spent for cleaning up contaminated sites; the remainder, presumably, was spent for studies.¹ Moreover, most of the spending for cleanup actions has probably financed interim remedial measures rather than permanent cleanup, since so few permanent cleanup actions have occurred.

As more studies are completed and remedial actions are undertaken, spending for environmental cleanup will shift from financing studies to conducting cleanup. Fiscal year 1994 marked the first time that DoD spent more for cleanup than for studies; over 52 percent of spending for DERA was allocated to cleanup activities. Based on DoD's budget request for 1995, the portion of spending for cleanup will increase to about 63 percent.² Figure 3

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1. General Accounting Office, *Hazardous Waste: DoD Estimates for Cleaning Up Contaminated Sites Improved but Still Constrained*, GAO/NSIAD-92-37 (October 1991), p. 17.
 2. Statement of Sherri W. Goodman, Deputy Under Secretary of Defense for Environmental Security, before the Subcommittee on Military Readiness and Defense Infrastructure of the Senate Committee on Armed Services, May 4, 1994.

highlights DoD's changing priorities for its cleanup budget for 1992 through 1995.

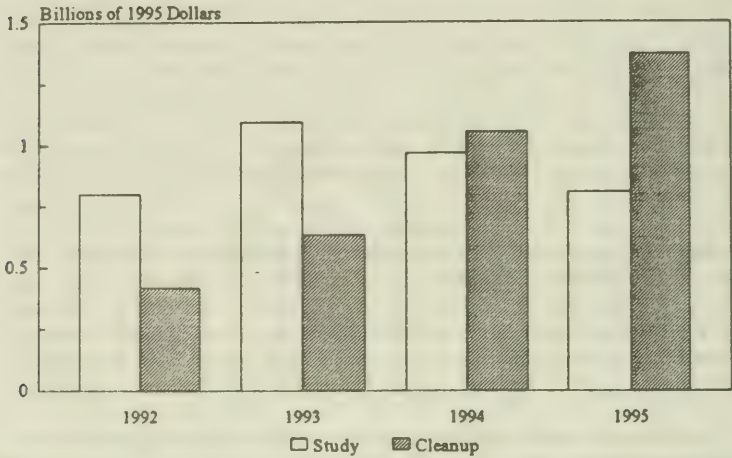
Since precise knowledge of the size and scope of remaining cleanup tasks is far from complete, estimating the total cost of cleaning up DoD's thousands of hazardous waste sites is difficult and subject to considerable uncertainty. The trend in DoD's cost estimates for the cleanup program, however, is quite clear: they have been rising steadily during the past decade. In 1985, the department estimated that it would cost between \$6.9 billion and \$13.7 billion to clean up the 400 to 800 sites that DoD had identified as requiring remediation. Several years later, the range of estimates for completing the cleanup program--then including some 12,342 potentially contaminated sites--had increased to between \$11 billion and \$16 billion. In November 1989, the Deputy Assistant Secretary of Defense for the Environment estimated that completing the cleanup of some 15,257 sites, including the Rocky Mountain Arsenal, would cost between \$14.3 billion and \$19.5 billion. In 1991, DoD's estimate increased to \$27.3 billion to study and remediate, as necessary, some 24,500 potentially contaminated sites.³ In May 1994, the Deputy Under Secretary of Defense for Environmental Security indicated that the department was preparing a new, comprehensive program estimate and suggested that the program could cost \$30 billion (see Figure 4).

Current estimates for annual cleanup costs are also dramatically higher than DoD estimated they would be just a few years ago. In 1989, for example, the department estimated that in 1994 it would need between \$900 million and \$1.2 billion to fund requirements under DERP; last year the Congress appropriated more than twice the higher estimate. DoD's current budget estimates for the 1990-1999 period, on average, are about twice what the department had projected it would need in 1989. If the current program experiences the same degree of budgetary growth over the next five years, cleanup costs could exceed \$20 billion during that period.

Current estimates, however, are likely to be moderately more reliable than those made during the initial stages of the Defense Environmental Restoration Program or even as recently as 1989. DoD's initial estimates were based on very limited information about the size and scope of the cleanup problem. The department has now completed nearly all of its preliminary assessments for the sites it has identified (though it continues to identify new sites each year) and has made considerable progress in the

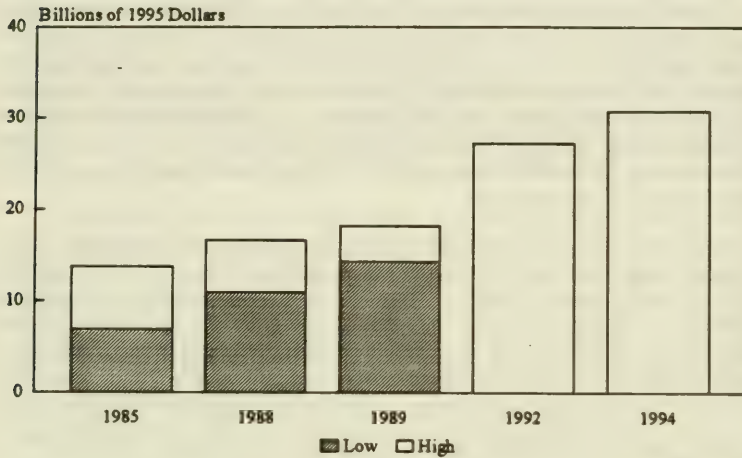
3. General Accounting Office, *Hazardous Waste*, pp. 14-16.

FIGURE 3. DoD's SPENDING FOR STUDIES AND CLEANUP, 1992-1995



SOURCE: Congressional Budget Office based on the testimony of Sherri Goodman, Deputy Under Secretary of Defense for Environmental Security, before the Subcommittee on Military Readiness and Defense Infrastructure of the Senate Committee on Armed Services, May 4, 1994.

FIGURE 4. DoD's ESTIMATES OF TOTAL COSTS FOR THE INSTALLATION RESTORATION PROGRAM



SOURCE: Congressional Budget Office estimates using data from General Accounting Office, *Hazardous Waste: DoD Estimates for Cleaning Up Contaminated Sites Improved but Still Constrained*, GAO/NSIAD-92-37 (October 1991), p. 14.

remedial investigation/feasibility study phase of the cleanup process. In addition, DoD has completed more than 500 cleanup actions that provide useful empirical data on which to base estimates of future costs.

Further complicating the task of estimating costs is the uncertainty surrounding the time needed to complete the various stages of the cleanup process. Past estimates have been optimistic. In 1991, DoD believed that it would complete the preliminary assessment phase for all sites in the Installation Restoration Program by 1992, the remedial investigation/feasibility study phase by 1996, and the cleanup phase by about 2010. Current estimates for cleaning up sites on NPL facilities suggest that the initial phase is taking longer than DoD expected--about 18 months for simple soil contamination, 36 months for complex soil contamination, and six years for contamination of groundwater.

In contrast, the remedial investigation/feasibility study phase seems to be taking less time than DoD expected years ago. According to recent estimates for cleaning up sites on NPL facilities, RI/FS takes, on average, from six months to one year to complete--well within the four years DoD envisioned in 1991. Recent estimates for completing the cleanup phase, however, seem consistent with earlier estimates of 14 years. DoD currently estimates that the final phase may vary from six months for cleaning up simple soil contamination sites to 15 years for remediating contaminated groundwater.⁴

Some recent data from the Environmental Protection Agency also suggest that cleaning up the most contaminated nondefense sites--those on the National Priorities List--takes a long time and, in many cases, longer than expected.⁵ In total, the average time to complete cleanup of nondefense NPL sites measured from the proposed listing on the NPL could be between 13 years and 15 years. Moreover, data for individual projects, called operable units, that are located on NPL sites indicate that the typical time to complete cleanup has increased significantly. During the first half of 1993, the Environmental Protection Agency estimated that the remedial investiga-

4. Data from the Department of Defense's response to questions for the record of hearings before the Subcommittee on Defense of the House Committee on Appropriations on fiscal year 1995 DoD appropriations, March 23, 1994.

5. Congressional Budget Office, "Analyzing the Duration of Cleanup at Sites on Superfund's National Priorities List," CBO Memorandum (March 1994), pp. 2 and 9. Nondefense NPL sites may not differ significantly from those located on defense installations. Both types of sites are designated on the NPL because they had received high scores on a uniform scale--the Hazard Ranking System--that provides an overall measure of contamination.

tion/feasibility study and cleanup phases for an operable unit increased from about 9.4 years to almost 10.3 years.

Many of the bases that DoD is closing have also experienced unanticipated cost increases as a result of longer cleanup time, stricter cleanup standards, and poor initial estimates. The DoD Inspector General recently found that cost estimates for cleanup had exceeded baseline estimates at 34 of 49 bases being closed.⁶ The median cost of cleanup was about 50 percent higher for current estimates than for baseline estimates, and the average cost was about 60 percent higher. According to personnel assigned to those bases, the unanticipated increase in costs results primarily from the discovery of additional contaminated sites and hazardous wastes, cleanup standards that are stricter than initially planned, and higher construction costs.

Will cleanup costs continue to grow? The budget and cost data cited above suggest that unless steps are taken either to delay elements of the cleanup program or to introduce cheaper methods of remediation, funding requests will continue to increase if DoD is to meet the requirements. In addition, empirical data on characterization and cleanup work is limited, so confidence in current cost estimates remains low. For example, much of the RI/FS work (about 80 percent) and almost all of the permanent cleanup work (about 95 percent) remains to be done.

DoD must also continually expand its cost estimates to include newly discovered contamination problems. The department routinely discovers more extensive contamination than initial research indicated, additional types of contaminants on sites already located, as well as hundreds of new hazardous waste sites each year. A recent court ruling could contribute to higher costs by affirming legal requirements favoring stricter standards of cleanup when jurisdictions disagree. If such rulings affect numerous cleanup projects, total cleanup costs could increase significantly.

Finally, since DoD and the Congress have not decided which bases to close during next year's round of base closures, the department has made no estimate of any additional near-term budget needs for cleaning up those bases. If history is a guide, however, such cleanups will require funds beyond those currently in the Defense Environmental Restoration Account.

6. Department of Defense, Office of the Inspector General, *Environmental Problems Emerging During Base Realignment and Closure* (July 1993), p. 5.

CHAPTER IV

KEY ISSUES AFFECTING FUTURE CLEANUP

Although the size, scope, and cost of the cleanup program have grown beyond expectations, a variety of other factors will also affect whether the Department of Defense will be able to meet its cleanup objectives. Are its cleanup goals realistic? Will cleanup standards be flexible enough to permit cost savings? How should the department approach cleaning up bases that are scheduled to be closed? What funding priorities should apply among environmental programs that are competing for resources, if cutbacks occur?

OPTIMISTIC PROGRAM GOALS

The department's modest progress with its cleanup program has not met the goals set in 1991, which suggests that current goals may also be too optimistic. In September 1991, DoD planned to have completed all the preliminary assessments and site inspections by the end of 1992. According to the Defense Environmental Cleanup Program's *Annual Report to Congress for Fiscal Year 1993*, the department has completed about 96 percent of the required preliminary assessments and, according to Congressional Budget Office estimates, about 83 percent of the site investigations. The 1991 plan called for all remedial investigations and feasibility studies to be under way by 1993 and completed by 1996. But as of April 1994, only about 50 percent of the active sites were in the RI/FS phase, and only 20 percent had completed that stage. Finally, the 1991 plan projected that the program would be completed--that is, either all sites cleaned up or remediation technology in place--by about 2010. The department has not revised that estimate, although it is reexamining program objectives.

CURRENT LEGISLATION AND ITS STRINGENT CLEANUP STANDARDS

Cleanup standards are also likely to have a significant impact on DoD's ability to meet its objectives for the cost and schedule of cleanup. Although various federal laws such as the Toxic Substances Control Act, the Clean Water Act, the Clean Air Act, and the Solid Waste Disposal Act contain certain cleanup standards that must be met, the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) provides that in cases in which federal and local standards differ and states' standards are more stringent, the

latter standards and requirements take precedence.¹ Guided by existing legislation and local standards and requirements, federal and local representatives normally negotiate cleanup standards for individual cleanup projects. When they are unable to agree, however, questions arise about which standards to apply.

Disagreement about what may be an appropriate standard may reflect a conflict over whether CERCLA or the Resource Conservation and Recovery Act of 1976 (RCRA) should govern the cleanup.² Both laws govern the cleanup of hazardous wastes but are implemented through different authorities, which could prefer different standards for cleanup. CERCLA directs the Department of Defense to remediate a hazardous waste site in consultation with the Environmental Protection Agency and state authorities. RCRA delegates authority to direct the cleanup of contaminated sites to EPA, which in turn delegates implementing authority to the states.

More stringent cleanup standards are costly to meet and usually take more time. Information that describes how widespread the problem of differing standards may be is not currently available; individual cases, however, such as the Rocky Mountain Arsenal in Colorado and George and Mather Air Force bases in California, suggest that the impact can be substantial. In April 1993, the U.S. Court of Appeals for the Tenth Circuit ruled that the state of Colorado could exercise authority under RCRA to direct cleanup actions taken at the Rocky Mountain Arsenal. The Army, EPA, and Colorado have not yet agreed on final cleanup standards for the arsenal, but the Army believes that stricter standards, if ordered by the state, would add significantly to the estimated \$2.3 billion needed to remediate the property according to the Army's plan. Similarly, the Air Force estimated that California's more stringent standards for cleaning up groundwater at George and Mather Air Force bases would add one-time costs of about \$500,000 for remediation equipment and almost \$200,000 annually for operation and maintenance.

1. 42 U.S.C. 9621d.

2. The Comprehensive Environmental Response, Compensation, and Liability Act as amended by the Superfund Amendments and Reauthorization Act of 1986 establishes policies and procedures governing the identification, investigation, and cleanup of past releases—or impending releases—of hazardous wastes, including those on defense property. The Resource Conservation and Recovery Act of 1976 as amended by the Hazardous and Solid Waste Amendments (HSWA) of 1984 establishes a program, governed by states authorized by EPA, to manage the handling of hazardous wastes, including those on defense property. HSWA, like CERCLA, also governs the investigation and cleanup of existing waste sites but includes some requirements that differ from those in CERCLA. For DoD installations that need a RCRA permit to manage hazardous wastes, EPA or authorized states may require corrective cleanup actions for hazardous wastes released from solid waste management units on the installation. The standards that those corrective actions must meet may differ from the standards that might be required under CERCLA.

Appropriate standards of cleanup, however, may not necessarily be the most stringent standards. Many analysts believe that cleanup standards should reflect the likely use of contaminated property rather than require cleanup actions that would ensure unrestricted use in the future. Military airfields that are being closed, for example, may be more likely to be reused as commercial airfields than, say, as residential property. The cleanup standards appropriate for remediating hazardous waste at an operational airfield are likely to be less demanding than those for residential areas unless the contamination poses a threat to human health and safety. Some Members of Congress have supported, changes to legislation permitting cleanup standards to reflect "reasonably anticipated future land uses," and those changes could result in considerable savings in cleanup costs.³ Unless the Congress adopts such a provision, however, current legislation requiring more stringent cleanup standards will remain in effect.

REDUCED CLEANUP TIME TO ACCELERATE THE REUSE OF DEFENSE PROPERTY

Reducing the time it takes to clean up hazardous waste on defense facilities that are scheduled to be closed is particularly important in order to accelerate the reuse of the property to help offset local economic losses. The timing of cleanup can be an important factor in aiding recovery. The Defense Base Closure and Realignment Act of 1990, as amended, requires that DoD complete all base closures and realignments approved by the Congress within six years of receiving the President's recommendations.⁴ In addition, CERCLA requires DoD to certify that "all remedial action necessary to protect human health and the environment" has been taken before any property may be sold or transferred. In effect, those laws require DoD to complete environmental cleanup work within six years on former defense properties that are expected to be sold or transferred to nonfederal jurisdictions or to the private sector.

Since the communities affected by the closing of military bases are anxious to offset lost revenues, they have a strong incentive to ensure that DoD complies with the requirements of CERCLA and the procedures of the Base Closure and Realignment Commission (BRAC), or that the department uses other means to accelerate the reuse of former defense property at least on an interim basis. In October 1992, the Congress enacted legislation to

3. Superfund Reform Act of 1994, S. 1834, 103rd Cong., 2nd Sess., p. 104.

4. Defense Base Closure and Realignment Commission, *1993 Report to the President* (July 1, 1993), p. A-7.

assist communities in achieving their goals. The Community Environmental Response Facilitation Act directed DoD and other federal agencies to identify uncontaminated parcels of land, including property located on installations on the National Priorities List, that could be sold or transferred without requiring any cleanup. As of August 1994, DoD had identified more than 150,000 acres of uncontaminated property on closing defense facilities that could be sold or transferred without delay.

Leasing property to private concerns or transferring property to other federal agencies is also an effective way to accelerate reuse of former military bases.⁵ Although DoD remains liable for cleaning up contaminated property that it has leased or transferred, it is not required to complete its work before the date of such transactions. Cleanup of contaminated sites located on those parcels, though not constrained by schedules for closing bases, is governed by schedules and standards agreed on by DoD, EPA, and state regulatory authorities. To date, DoD has completed or is negotiating some 75 leases for property located on defense facilities scheduled to be closed. DoD has transferred ownership of approximately 40 parcels to new owners, some of which are other federal agencies.

New remediation technology can also reduce the time it takes to clean up hazardous wastes. But DoD, EPA, and state regulators have been reluctant to endorse the use of new technologies that have not been fully demonstrated. They have been more likely to adopt more traditional remediation techniques whose costs and effectiveness are better known. Efforts are under way, however, to promote the validation and certification of new, time-saving remediation technologies. As part of its "Fast Track Cleanup Program," DoD has established teams for cleaning up bases and charged them with identifying and encouraging the use of new, more efficient remediation technologies. DoD, in partnership with the Western Governors Association, is also promoting the use of new technologies through the Develop On Site Innovative Technology Program, an interagency cooperative effort to develop guidelines for general acceptance of remediation technologies.⁶

Under current practices, remediation technology is selected on a case-by-case basis and incorporated into records of decision that set out remediation plans. Although various programs such as those cited above are under

5. For a discussion of ways to accelerate reuse of property on bases scheduled to be closed, see *The Report of the Defense Environmental Response Task Force* (August 1991).

6. Statement of Sherri W. Goodman, Deputy Under Secretary of Defense for Environmental Security, before the Subcommittee on Installations and Facilities of the House Committee on Armed Services, April 20, 1994.

way to encourage the use of new technologies, no standards or procedures that govern their validation and certification exist. The lack of such standards and procedures contributes to the unwillingness of various interested parties to take risks in applying new, more efficient technologies.

The Congress has, on the one hand, sought to encourage acceptance and broad application of new remediation technologies. Title IV of the National Environmental Technology Act of 1994 outlines a program to establish standards and procedures for testing and validating remediation technologies that would permit their widespread application. On the other hand, the Congress has not fully supported DoD's requests for funding. In 1994 and 1995, the Congress denied DoD's request for funds for the Defense Environmental Restoration Account earmarked to gain regulators' acceptance of new cleanup technologies for wider application. The Congress, however, provided a small amount in 1995--about \$10 million--to support acceptance of new technologies through DoD's Innovative Environmental Security Technology Program.

INCREASED COMPETITION FOR FUNDING

Although funding for DoD's environmental programs has grown dramatically during the past 10 years, further growth is unlikely in view of the cutbacks planned for defense spending over the next few years. Competition for funding is likely to become increasingly intense as the department reduces its spending. Still, spending on environmental programs constitutes a very small portion of DoD's overall budget and could grow even in a constrained budget environment if DoD and the Congress chose to increase spending needed to meet the environmental cleanup standards required by law.

The rapid growth in the rate of environmental spending during the past decade stems partly from DoD's having spent so little of its budget on the environment 10 years ago. In 1984, spending on environmental programs totaled less than one-tenth of one percent of DoD's budget; it is now slightly more than 2 percent (see Table 4). As of January 1994, the department had no plans to increase environmental spending beyond 1995, however, and in fact projects major cutbacks during the next several years.

Competition for funding will increase not only among the appropriation accounts within the defense budget such as procurement, research and development, and operation and maintenance (which contains funding for environmental programs) but also among environmental programs. In 1984, DoD restructured its environmental budget to consolidate funding for

environmental programs into a single line item. As a result, all elements of the defense environmental program except the BRAC cleanup--Compliance and Pollution Prevention, the Defense Environmental Restoration Program, Environmental Research and Development, and Conservation--have greater visibility, and relative priorities and trends are easier to identify. DoD examines alternative approaches to spending for environmental programs as a part of its program budget review.

Shares of spending for various elements of the environmental program were relatively constant between 1990 and 1993 and, according to current plans, will remain so during the next five years. Priorities in spending shifted, however, beginning in 1994. Between 1990 and 1993, the department allocated more funds to handling and storing hazardous wastes than to cleanup. During the 1990-1993 period, DoD spent about \$6.1 billion on compliance--about 49 percent of funding for all environmental programs. Spending on cleanup during that period amounted to \$5.8 billion, or approximately 46 percent of the total. Since then, however, DoD has allocated slightly more funding to cleanup than to compliance. In 1994, for

TABLE 4. DoD's SPENDING FOR ENVIRONMENTAL PROGRAMS, 1984-1994
(In millions of 1995 dollars of budget authority)

	Environmental Spending	Total Defense Spending	Environmental as a Percent- age of Total Defense Spending
1984	213	366,421	0.1
1985	431	390,479	0.1
1986	481	373,215	0.1
1987	490	359,185	0.1
1988	510	351,733	0.1
1989	608	346,705	0.2
1990	1,617	339,091	0.5
1991	2,835	304,495	0.9
1992	3,949	304,536	1.3
1993	4,209	279,563	1.5
1994	5,546	254,445	2.2

SOURCE: Congressional Budget Office using data from the Department of Defense.

example, it spent almost 48 percent of environmental funding on cleanup and about 43 percent on compliance. During the next five years, the department plans to spend about 48 percent of its total environmental budget on cleanup (about \$11.7 billion) and about 47 percent (\$11.4 billion) for compliance (see Table 5).

If the cost of remediation increases significantly beyond current expectations and necessitates budgetary increases for cleanup to meet legal requirements, DoD might have to make offsetting reductions to spending for compliance and pollution prevention. Funding for research and development and for conservation in 1995 totals about 6 percent of environmental funding, and financing the overruns in the cost of remediation by cutting R&D and conservation would devastate those programs. Moreover, reduced funding for research and development would jeopardize the potential for developing more efficient remediation technologies that would help to control future costs.

TABLE 5. DoD's SPENDING FOR MAJOR ENVIRONMENTAL PROGRAMS AS A PERCENTAGE OF TOTAL ENVIRONMENTAL SPENDING, 1990-1999

	Compliance	DERA	Cleanup	Environmental R&D
			Environmental Restoration of Closing Bases	
Actual				
1990	57	43	0	0
1991	44	42	12	3
1992	53	31	14	2
1993	45	29	13	9
1994	43	36	11	6
Projection				
1995	46	38	10	4
1996	46	39	10	3
1997	48	38	8	4
1998	46	40	8	4
1999	48	40	8	2

SOURCE: Congressional Budget Office using data from the Department of Defense.

NOTE: DERA = Defense Environmental Restoration Account; R&D = research and development.

CHAPTER V

STRATEGIES FOR CONTROLLING

FUTURE CLEANUP COSTS

Given the dramatic growth in spending devoted to environmental programs, the limited progress made to date in cleaning up defense facilities, and the probability that current spending plans might not allow the Department of Defense to meet existing requirements, the Congress may want to consider various ways to meet the twin goals of efficiently remediating the most pressing contamination problems and returning as many sites as possible to usable condition. Potential solutions could incorporate both near-term and long-term approaches. The following sections analyze the relative merits and difficulties of such approaches.

**STEPS DoD COULD TAKE
TO CONTROL COSTS IN THE NEAR TERM**

Since the outset of DoD's environmental cleanup program, the department has been able to provide sufficient funds to meet existing legislative and regulatory requirements. Consequently, it has not needed to establish priorities to govern funding for environmental programs and individual cleanup projects. However, if the costs of environmental programs increase beyond DoD's ability to meet legislative and regulatory requirements, the department will need to set priorities among competing demands for funding.

Applying a zero-based budgeting approach that ranks environmental programs and projects according to priority could ensure that the cleanup program met its most pressing requirements while remaining within budgetary constraints. Once DoD completed its ranking of programs and projects, the department would fund the most important cleanup tasks first, ensuring progress for those sites in accordance with negotiated cleanup standards and schedules. As the availability of funds shifted from year to year, cleanup activities with a lower priority could be delayed if necessary without affecting progress on those having a higher priority. Both DoD and the Department of Energy have developed models based on setting priorities that could assist in supporting zero-based budgeting.

What sorts of priorities might be appropriate to guide future funding if choices must be made? Some, such as funding cleanup of the most seriously contaminated projects--contaminated sites posing the greatest threat to health and safety--would maintain the government's current policy. The most

seriously contaminated defense sites are located on installations included on the National Priorities List, and cleaning up sites that pose the most serious risks to health and human safety on those bases clearly deserves the highest priority.

A "worst-first" policy, however, could be modified to ensure that the department assigned priority to remediating only the most threatening contaminated sites located on NPL defense installations. According to current practices, DoD installations that are heavily contaminated qualify for the NPL on the basis of an aggregate Hazard Ranking System score for the entire facility. Dozens of individual sites may be located on such a facility, however--some more contaminated than others--and they all contribute to the aggregate score.¹ According to DoD's figures, the 107 defense installations included on the NPL include some 5,500 individual contaminated sites.

Although the Hazard Ranking System is useful in identifying contaminated sites that pose the greatest risk to public health and safety, applying it is a time-consuming and expensive process. The department therefore applies it only to areas for which preliminary investigations reveal a likelihood of serious contamination. The department needs a timely, less costly method of assessing contamination to assist in determining the relative threat that individual sites pose to health and the environment.

Some Members of Congress have recognized that need and favor improved methods of assessing the risk to health and safety of local populations as a means of determining cleanup priorities. A bipartisan group introduced a bill during the 103rd Congress to establish guidelines for systematically characterizing the potential adverse health or ecological effects of exposure to environmental hazards. The Risk Assessment Improvement Act would establish a pilot project enabling scientists to rank dissimilar hazardous materials according to their risk to the population.² Improved risk-assessment methods such as the legislation proposes could assist in establishing cleanup priorities among all contaminated sites, including those listed on the NPL.

When setting priorities, policymakers should also consider alternative approaches to cleaning up property on military bases that are scheduled to be closed. Although leasing contaminated property on those bases or transferring it to other federal agencies may be preferable in some cases, completing

1. See General Accounting Office, *Environmental Cleanup: Too Many High Priority Sites Impede DoD's Program*, GAO/NSIAD-94-133 (April 1994), p. 9.

2. Risk Assessment Improvement Act of 1994, H.R. 4306, 103rd Cong., 2nd Sess., pp. 14-15.

environmental cleanup actions quickly to aid in local economic recovery may be more useful in others. The Comprehensive Environmental Response, Compensation, and Liability Act requires that DoD clean up its property before it can sell or transfer the title to private purchasers or buyers other than federal agencies. Property that has been cleaned up is attractive to investors who wish to avoid the risks of dealing with hazardous wastes, and revenues generated by the sale or transfer of "clean" property can be used to support other environmental cleanup activities at bases that are scheduled to be closed. Clean property that is ready for immediate reuse can also benefit the local economy. DoD could assign priority to those contaminated parcels that, if they are remediated, are likely to generate significant revenues or commercial activity to aid in local economic recovery.

The priorities DoD sets for cleaning up defense facilities scheduled to be closed could also reflect the relative economic impact on them. DoD and the Congress could assign higher priority to remediating commercially viable defense properties in locales that have been particularly hard hit by the closing of military facilities. That approach would favor cleaning up bases in small communities heavily dependent on their military installation, or cleaning up facilities in large communities affected by numerous base closings that, taken individually, might not be viewed as having a significant impact on the local economy.

DoD and the Congress could also control near-term spending by choosing to delay costly remediation projects, such as cleaning up unexploded ordnance and contaminated groundwater, that do not pose an immediate threat to human health and safety. Delaying remediation of these types of contaminants at sites where public health and safety would not be endangered by doing so could save billions of dollars in the short term. Delays, however, could require renegotiating existing agreements between DoD, EPA, and state regulatory authorities.

According to recent figures, the Army has identified about 1,700 sites covering tens of thousands of acres contaminated by ordnance and chemical warfare materials. Assuming an average cost of \$65,000 per acre to remediate such property, delaying cleanup could enable DoD to reduce spending substantially in the near term, perhaps by billions of dollars. Of course, DoD must clean up such properties at some point in the future, but significant net savings in the long term could be possible if, in the interim, the department developed less costly methods of remediation.

Similarly, in certain cases, DoD could achieve significant savings in the long term by delaying remediation of contaminated groundwater until less

costly methods were developed. Delays would be appropriate, however, only at sites where doing so would not endanger public health and safety. Based on 1991 cost estimates, DoD could reduce near-term spending by hundreds of millions of dollars by delaying the cleanup of such sites.³ If new technologies currently in development prove effective, costs of characterization and remediation could be reduced by 50 percent or more.

In some cases, delaying the cleanup of groundwater could raise costs if cheaper methods of remediation were not perfected and a hiatus permitted contamination to increase or spread. The department remains liable for cleaning up contaminated groundwater in any event and would have to characterize, sample, and monitor the site before resuming remediation. The department might also have to supply fresh water to tenants of base property or to property owners in the locale who would be affected. The funding needed to support this approach could exceed savings gained in the near term as a result of delaying remediation. Cost analyses could assist in determining the advisability of such delays.

APPROACHES FOR CONTROLLING LONG-TERM COSTS

Since virtually all of DoD's cleanup work has yet to be done, the prospects for savings in the long term lie in developing less expensive methods of remediation. Many research projects now in the laboratories or being tested in the field are providing results that foreshadow lower costs. According to current DoD estimates, for example, new technologies for cleaning up metals in contaminated groundwater could reduce costs from as high as \$40 to as low as 10 cents per thousand gallons; and for metals in contaminated soils, from as high as \$250 to as low as \$20 per ton. DoD estimates that it might be able to cut the cost of remediating buried ordnance by 33 percent using technology now being developed.

New technologies for studying contaminated sites could also achieve significant savings. For example, new penetrometer technologies could reduce the cost of surveying property containing buried ordnance from \$5,000 to as low as \$600 per acre. New well-drilling techniques could reduce sampling costs from \$280 to as low as \$10 per well-foot. Of course, those estimates are preliminary and require additional testing and application to confirm their validity. However, they are based on laboratory and field tests that suggest potential savings of those magnitudes. Table 6 summarizes potential savings

3. Department of Defense, *Installation Restoration Program Cost Estimate* (September 1991), pp. 24-27. The estimate cited is based on costs for remediating 63 sites that have contaminated groundwater.

for future technologies for remediating, characterizing, or detecting various types of contaminants.

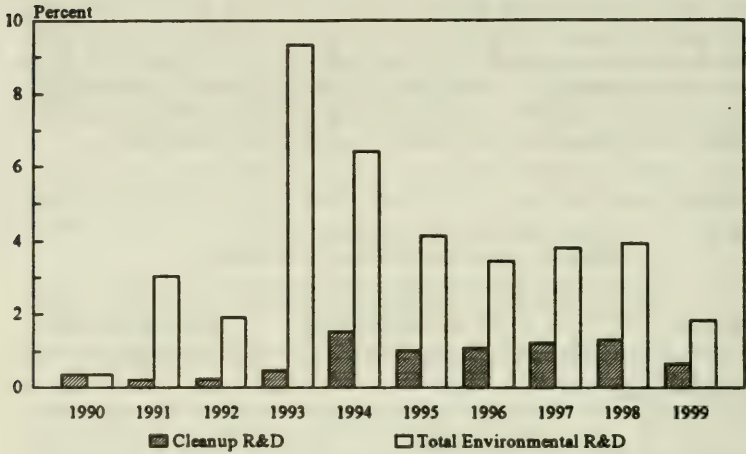
Can DoD afford to make additional investment in long-term solutions? Given the estimates of future budgets and the magnitude of potential savings, perhaps it cannot afford not to. Moreover, funding for environmental research and development has been quite modest. In 1991, the Congress authorized \$86 million for environmental R&D, only about 3 percent of DoD's total funding for environmental programs. Although environmental R&D funding has increased since then in absolute terms, since 1993 it has decreased as a portion of overall spending on environmental programs (see Figure 5). The department spent about \$357 million on environmental R&D in 1994--slightly more than 6 percent of all environmental spending.

TABLE 6. ESTIMATED COSTS OF CURRENT AND EMERGING ENVIRONMENTAL TECHNOLOGY

Contaminant	Current Technology	Emerging Technology
Explosives/Organics		
In soil (Per ton)	\$350 to \$1,500	\$30 to \$400
In groundwater (Per 1,000 gallons)	\$1 to \$5	\$0.02 to \$2
Heavy Metals		
In soil (Per ton)	\$75 to \$250	\$20 to \$200
In groundwater (Per 1,000 gallons)	\$0.10 to \$40	\$0.10 to \$2
Characterization/Detection of Unexploded Ordnance (Per acre)	\$5,000	\$600 to \$1,600
Unexploded Ordnance (Per acre)	\$60,000	\$40,000 to \$50,000
Characterization/Detection of Contamination in Soil and Groundwater (Per well-foot)	\$100 to \$280	\$10 to \$40

SOURCE: Congressional Budget Office using data from the Department of Defense.

FIGURE 5. DoD's SPENDING ON CLEANUP R&D AND TOTAL ENVIRONMENTAL R&D AS A PERCENTAGE OF DoD's TOTAL ENVIRONMENTAL BUDGET, 1990-1999



SOURCE: Congressional Budget Office using data from the Department of Defense.

NOTES: Data for 1995 through 1999 are CBO projections.
R&D = research and development.

The department allocates only about one-quarter of its spending on environmental research and development to investigating new cleanup technologies. DoD spent about \$84 million (or 23 percent) in 1994 on studying new cleanup techniques. The department plans to spend even less in 1995--about \$57 million--though cleanup R&D's share of all R&D spending will remain about the same. The rest of environmental R&D spending is allocated to the Strategic Environmental Research and Development Program and for defense research on compliance, pollution prevention, conservation, and other programs.

Last year, the Congress supported a major increase in spending for DoD's environmental research and development efforts. DoD requested \$100 million for the Strategic Environmental Research and Development Program; the Congress authorized \$153 million. This year, the Congress authorized DoD's request for \$112 million, but appropriated only \$62 million because that program's account had large unobligated balances in 1993 and 1994.

Whatever the cause of delays in obligating funds, ample opportunities exist for investment in research and development. According to DoD's Tri-Service Environmental Quality R&D Strategic Plan, many R&D projects remain unfunded. In 1994, for example, DoD estimated that R&D projects could have used an additional \$277 million. If the Congress had authorized those additional funds, spending for R&D would have increased to about 11 percent of total spending on environmental programs. Funding for additional R&D projects could help reduce long-term costs, but should be reviewed and coordinated with related projects funded by either the Department of Energy or the Environmental Protection Agency.

Since virtually all of DoD's remediation work has yet to be done, now could be an opportune time to reconsider the government's approach toward setting cleanup standards. Current policy, as set forth in CERCLA, states that federal agencies should select strict cleanup standards that favor permanent solutions to contamination problems.⁴ Some people believe that "permanent solutions" are those that ensure unlimited use of property in the future. Unlimited use requires that the strictest cleanup standards be applied, even if they are not needed to permit reuse of a contaminated site. Unlimited use, for example, could require meeting strict cleanup standards appropriate for a residential development or a day care center, as opposed to standards for industrial use or an operational airport.

4. 42 U.S.C. 9621.

Since meeting stricter cleanup standards is considerably more expensive than fulfilling less demanding ones, a new approach that sets standards on the basis of anticipated future land uses could result in significant savings in cleanup costs. Indeed, some Members of Congress favor an approach that would permit the government to set standards reflecting the reasonably anticipated future use of a property. The government could set such standards when a more stringent standard has not been set through legislation or regulation or is not appropriate because of special circumstances of the cleanup site.

Under this approach, the federal government could adopt generic cleanup standards for specific hazardous substances or contaminants that would meet national cleanup goals intended to protect human health and the environment.⁵ Doing so would create uniform cleanup standards applicable to all regions and thus would preempt disagreement--sometimes generated by differences between the Resource Conservation and Recovery Act and CERCLA--among federal agencies and state regulators over appropriate standards. Establishing generic standards could be quite difficult, however, since scientific opinions would probably vary regarding optimal generic standards covering different regions and different circumstances.

How much could be saved by revising the government's approach to setting cleanup standards? At this stage of the cleanup program, when relatively few sites have entered the final stages of the process, no reliable comprehensive estimates are possible. Certain cases, however, suggest that the magnitude of potential savings for seriously contaminated sites could be quite significant. The cost of cleaning up Fort Meade, Maryland, for example, was reduced considerably when federal and state authorities agreed that standards for unlimited use were inappropriate and that part of a former artillery practice range could be used as a wildlife preserve. DoD originally estimated that remediating the base, including a large tract of land contaminated with unexploded ordnance and related metals, would cost almost \$55 million. By agreeing to use the property as a game preserve and setting cleanup standards appropriate to that use, DoD expects to save about \$30 million--more than half--in cleanup costs.

Similar savings might be possible at other facilities featuring munitions testing and storage, such as Jefferson Proving Ground, Indiana. Based on current costs of remediation, cleaning up more than 55,000 acres of contaminated property on the base could cost billions. However, DoD's current plan,

5. Superfund Reform Act of 1994, S. 1834, 103rd Cong., 2nd Sess., p. 104.

which sets aside large parcels of property for use as a preserve, estimates that costs will amount to only about \$70 million.

Mr. BATEMAN. Thank you very much.

I think before we turn to Mr. Warren it might be a good time for us to go over and vote, and then we won't have to interrupt your opening statement, Mr. Warren.

Mr. WARREN. Fine, Mr. Chairman.

Mr. BATEMAN. If that is agreeable, then we will go to vote and return as soon as we do that.

[Recess.]

Mr. BATEMAN. The committee will come to order, and we will hear from Mr. Warren.

STATEMENT OF DAVID WARREN, DIRECTOR, DEFENSE AND NASA MANAGEMENT ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY ULDIS ADAMSONS AND JOHN J. KLOTZ

Mr. WARREN. Thank you, Mr. Chairman.

I have with me Uldis Adamsons, assistant director, and John Klotz. They have worked directly on this area.

If my statement could be submitted for the record I would appreciate that.

Mr. BATEMAN. It will be submitted in the record, and we welcome you and your associates.

Mr. WARREN. Thank you. I will try to be brief and not repeat some of the things that have already gone before.

I am pleased to be here to provide an overview of our work concerning the Department of Defense's environmental program. You have already heard from Secretary Goodman, so I'll move into the specific results of our work.

Notwithstanding the efforts that the Department of Defense has made to improve its program, the DOD faces a substantial challenge in cleaning up its hazardous waste sites and improving the overall management of the program. Although substantial amounts of money have been spent, cleanup has been slow at contaminated sites and active installations being closed or realigned.

For example, DOD has reported that through fiscal year 1993 it has cleaned up only 571 of 13,000 sites that may ultimately need to be cleaned. It has also spent over \$7 billion on cleanup activities. Much of this money has been spent for studies and site cleanup. Some of the key reasons for the slow pace include overly complex rules, regulations, governing the cleanup, and the level of cooperation between DOD, EPA, and the States. Taken together, these things tend to delay the cleanup, application, and approval processes.

Another problem delaying cleanup is a lack of effective technologies. The committee has already heard about that. Certain types of hazardous wastes such as large landfills, unexploded ordnance, contaminated ground water, and, in many cases, new affordable technologies are needed, but they will take time to develop. This is particularly the case with contamination and unexploded ordnance, and McClellan Air Force Base in California and Jefferson Proving Grounds in Indiana are two key examples.

In addition, DOD is not effectively prioritizing its hazardous sites to ensure that those posing the greatest risks to human health and

the environment receive funding priority over those that present less severe problems. This is the case for both active and closing sites. Other problems facing DOD include the timely and accurate estimates of program costs and effective means for measuring program progress and results. We are also concerned that DOD may be paying costs attributable to other parties.

Policies and procedures for clearing costs with responsible parties are not in place. Contractor-owned and contractor-operated facilities, as well as Government-owned and Government-contracted operated facilities, are examples of where this may occur. Further, DOD has been slow in preventing or minimizing the generation of pollution. Finally, the baseline data makes it difficult to determine what effect operations have had on natural resources and protecting natural resources such as wildlife habitat and military operations.

To address some of these issues, some of the key actions that we believe need to be taken are that EPA and DOD need to revise the system for designating high-priority sites and to reduce the number to a more manageable level. We think the risk assessment that Ms. Goodman mentioned is a good idea.

As it now stands, there are many sites that are receiving priority funding although they represent less of a problem than the other sites that are not receiving funding. To improve environmental programs at closing bases, DOD should develop better environmental program cost estimates, limit the cost of cleanups to only those required for compliance or that are cost effective, and establish standards for assessing cleanup problems. DOD also needs to improve the timeliness and accuracy of management information on contaminated site restoration and, lastly, needs to improve cost information and policy guidance to the military services to resolve disparities in cleanup responsibilities where other parties are involved.

Thank you, Mr. Chairman. That concludes my statement, and we will be happy to answer your questions.

[The statement of Mr. Warren follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittees on Military Readiness and Military Installations and Facilities, Committee on National Security, House of Representatives

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ENVIRONMENTAL
PROTECTION:

Challenges in Defense
Environmental Program
Management

David R. Warren, Director, Defense Management and NASA
Issues, National Security and International Affairs Division



Mr. Chairmen and Members of the Committee:

I am pleased to be here to provide you with an overview of our work concerning the Department of Defense's (DOD) environmental program. DOD faces a substantial task in managing its environmental activities. Since 1976, it has spent approximately \$20 billion for environmental programs; \$15 billion in fiscal years 1991 through 1994. In the fiscal year 1995 budget request, DOD estimated that an additional \$25 billion would be needed to fund its environmental activities through fiscal year 1999. Today, I am providing information on (1) the overall status of DOD's environmental program and (2) actions that need to be taken to enhance the success of DOD's program. Before discussing these matters in detail, I want to briefly summarize the key points in my testimony.

RESULTS IN BRIEF

Our work over the past several years shows that DOD has taken actions to improve the management of its environmental program. For example, DOD has revised its environmental strategy to expedite its cleanup efforts and has begun a program to prevent rather than control pollution. DOD has, for the most part, identified its hazardous waste sites--all told, nearly 28,000 potentially contaminated sites have been identified. It has also made compliance with environmental laws a priority by budgeting the funds necessary to meet compliance deadlines, and has worked to preserve the natural resources on its land.

Notwithstanding these efforts, our work also shows that DOD still faces a substantial challenge in cleaning up its hazardous waste sites and improving the overall management of its environmental program. Although substantial amounts of money have been spent, cleanup has been slow at contaminated sites on active installations and those being closed or realigned under

the base realignment and closure (BRAC) process. As of September 30, 1993, which is the most current DOD data available, DOD reported having cleaned up only 571 contaminated sites despite spending over \$7 billion for cleanup. Most of this money had been spent for site studies and cleanup design. Some key reasons for the slow pace of cleanup include the overly complex rules and regulations governing cleanup and the level of cooperation between DOD, the Environmental Protection Agency (EPA), and the states. Taken together these things tend to delay the cleanup application and approval processes.

Another problem delaying cleanup is the lack of cost-effective technologies for certain types of hazardous waste sites such as large landfills, unexploded ordnance, and contaminated ground water. In many cases, new, affordable technologies are needed, but they will take time to develop. In addition, DOD has not effectively prioritized its hazardous waste sites to ensure that those posing the greatest risk to human health and the environment receive funding priority over those that present less severe problems.

Other problems facing DOD, include a lack of timely and accurate estimates of program costs and an effective means for measuring program progress and results. We are also concerned that DOD may be paying cleanup costs attributable to other parties because clear policies and procedures for sharing costs with other responsible parties are not in place.

Lastly, DOD has been slow in preventing or minimizing the generation of pollution, and the lack of baseline data makes it difficult to determine what effect military operations have on natural resources and what effect protecting natural resources (such as wildlife habitat) has on military operations.

BACKGROUND

DOD is responsible for managing and caring for thousands of military installations and defense sites throughout the United States and overseas. Its operations are subject to the same environmental, safety, and health laws and regulations as private industry as well as additional requirements for federal facilities. The day-to-day operations and activities at a typical military installation generally mirror those of a small city. As a result, DOD installations face most of the same environmental problems confronting our nation's industrial and commercial sectors.

The types of hazardous waste at the majority of DOD installations are also found at most industrial operations. The primary contaminants are petroleum or petroleum-related products such as fuels, solvents, corrosives, and paint strippers and thinners. In addition, heavy metals, such as lead, cadmium, and chromium, are also found. Contamination usually results from improper disposal, leaks, or spills, and, in many instances, has contaminated the nearby soil and groundwater. Some unique military substances, such as nerve agents and unexploded ordnance, are also found at DOD installations.

Legal and Regulatory Requirements

Several environmental laws result in significant costs to DOD. They include the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), commonly referred to as Superfund; Resource Conservation and Recovery Act (RCRA); Clean Water Act; Clean Air Act; and Federal Facilities Compliance Act.

The two principal laws governing hazardous waste handling and cleanup at federal facilities are RCRA and CERCLA. RCRA regulates the day-to-day management of hazardous waste and may

include the cleanup of contamination at active facilities where such waste is treated, stored, or disposed of. CERCLA requires cleanups of previous hazardous waste contamination but may deal with emergencies at any site. CERCLA was amended in 1992 by the Community Environmental Response Facilitation Act to expedite the transfers of property resulting from BRAC actions to nonfederal users.

EPA is charged with implementing various environmental laws and maintains the National Priorities List (NPL), a register of the nation's most contaminated sites. EPA has developed implementing regulations that outline, for example, cleanup requirements as well as selection and approval procedures for remedial actions at hazardous sites. However, because national standards do not exist for most contaminants in soil, DOD must work with EPA and state governments to negotiate and set cleanup goals for each site. States may apply more stringent cleanup standards than EPA, and then DOD must comply with those standards, which are not always uniform.

DOD Organization and Funding

To achieve its environmental mission, DOD has organized the program into five elements--cleanup, compliance, conservation, pollution prevention, and technology. The Secretary of Defense has delegated cleanup responsibility to the Army, Navy, Air Force, and Defense Logistics Agency. Cleanup actions are usually accomplished under contract with private firms, which are monitored by the services.

Funding for DOD's five environmental program elements is divided into three broad categories: (1) environmental compliance, (2) environmental restoration, and (3) BRAC cleanup costs. Environmental compliance category activities relate to conservation, pollution prevention, and the development of

environmental technology. The environmental restoration category includes identification, investigation, and cleanup of contamination from hazardous substances and waste on active and formerly used DOD land; the correction of other environmental damage, such as unexploded ordnance detection and disposal; the demolition and removal of unsafe buildings and structures; removal of debris; and reductions in DOD's hazardous waste generation--commonly referred to as DOD's pollution prevention program. The BRAC environmental category includes environmental cleanup activities at DOD bases selected to be closed under base realignment and closure decisions.

From fiscal year 1976 through 1994, DOD spent approximately \$20 billion to clean up hazardous waste sites and to comply with other environmental laws. About 75 percent of the total, or almost \$15 billion, was spent in the four year period of fiscal year 1991 through 1994 as shown in the following schedule:

(In millions of dollars)

Fiscal Year	DERA ^a	BRAC	Other Compliance ^b	Total
1991	\$1,065.0	\$ 239.3	\$1,118.9	\$ 2,423.2
1992	1,567.8	408.5	2,033.0	4,009.3
1993	1,199.7	192.5	2,524.7	3,916.9
1994	1,965.0	160.3	2,482.5	4,607.8
Total	\$5,797.5	\$1,000.6	\$8,159.1	\$14,957.2

^aDefense Environmental Restoration Account funds.

^bIncludes compliance, conservation, protection, and prevention.

For fiscal year 1995, DOD's appropriation for environmental activities totalled about \$5 billion; \$1.8 billion for DERA, \$500 million for BRAC cleanup, and the balance for compliance and other programs. DOD has requested just under \$5 billion for fiscal year 1996.

PROGRESS IN ADDRESSING ENVIRONMENTAL PROBLEMS

We reported in September 1994 that DOD has made progress in addressing a number of its environmental problems.¹ For example, DOD recently reorganized its environmental program office and revised its program strategy. In May 1993, DOD abolished the Deputy Assistant Secretary of Defense (Environment) position and created a higher level, Deputy Under Secretary of Defense (Environmental Security). It organized this office to emphasize the importance of its environmental mission.

As part of its new strategy, DOD implemented the Fast Track Cleanup program to accelerate the environmental cleanup at BRAC installations and to expedite their transfer to communities. Also, DOD recently reestablished an interagency Environmental Response Task Force to monitor the BRAC process and formulate interagency solutions to barriers.

In terms of cleanup, DOD reports that it has generally identified all hazardous waste sites² at its active installations and has made substantial progress in studying these sites to develop cleanup plans and strategies. DOD has identified nearly 28,000 potentially contaminated sites, including 19,694 sites at active

¹Environment: DOD's New Environmental Security Strategy Faces Barriers (GAO/NSIAD-94-142, Sept. 30, 1994).

²EPA defines a hazardous waste site as a location containing hazardous waste. A facility or installation may contain one or more such sites.

and closing installations and 8,004 at formerly used defense sites. DOD has completed studies at 10,096 sites on active and closing installations and has determined that cleanup will not be necessary at 8,835 sites. DOD has closed out all but 2,815 active sites on formerly used defense sites, primarily through determinations that sites are not eligible for DOD cleanup or that no cleanup is required. However, DOD is continuing to find additional contaminated sites, having identified 660 sites during fiscal year 1993.

DOD has also made compliance with environmental laws, such as the Clean Air Act, a priority by budgeting funds to upgrade its facilities by the compliance deadlines and to minimize costly cleanup of hazardous waste and the fines and penalties often associated with noncompliance. For example, DOD budgeted about \$205 million in fiscal year 1993 to upgrade its underground storage tanks. In addition, service personnel are receiving training to reduce the number of administrative and procedural violations of environmental laws that comprise a large part of DOD's environmental violations.

DOD also has a number of initiatives underway to prevent pollution by reducing its use of toxic chemicals. For example, in June 1994, the Secretary of Defense directed the use of commercial practices and performance-based specifications to replace military specifications and standards that require use of toxic chemicals in repairing and maintaining weapon systems and facilities. The Air Force and the Navy are also implementing a pharmacy approach to managing and controlling hazardous material inventories. Under this approach, hazardous materials are tightly controlled, much like the medical field controls the dispensing of certain drugs through prescriptions approved by a physician. The services told us that this program has already achieved results by centralizing their inventories of hazardous materials. For example, according to the Air Force, Hill Air

Force Base, Utah, has reduced hazardous material purchases by 50 percent. Also, the Navy reported that the program has saved over \$3 million at three shore facilities and on eight ships.

DOD has also worked to balance mission needs with conserving natural resources. For example, special flight altitude restrictions have been established at some DOD installations to reduce wildlife and habitat disturbance and the Army is taking steps to determine the ability of its installations to optimally support their assigned missions over an indefinite period of time without significantly affecting the land.

SUBSTANTIAL ENVIRONMENTAL PROBLEMS AND COSTS REMAIN

Although our recent reports show that DOD has made some progress, they also show that some major problems remain, including

- the slow pace and high cost of hazardous waste cleanup;
- the potential for unnecessarily increased costs because the services have not consistently requested that private parties pay their share of cleanup costs;
- the lack of progress in preventing or minimizing the generation of pollution; and
- a lack of the baseline data needed to measure the impact of military operations on natural resources, such as wildlife, on DOD lands.

DOD's challenge is to address these problems and concerns as quickly and cost-effectively as possible within existing budgets.

ENVIRONMENTAL CLEANUP HAS BEEN SLOW AND COSTLY

Although DOD reported that it has generally identified all hazardous waste sites at its active installations, its progress in cleaning up these sites has been slow over the past 10 years. As of September 30, 1993, DOD reported having cleaned up only 571, or about 5 percent of its potentially contaminated sites, despite spending over \$7 billion for cleanup since 1976. Of the 571 sites cleaned up, 21 are located on BRAC installations. In addition, DOD had cleaned up only 172 of the 2,815 formerly used defense sites eligible for cleanup. Much of DOD's cleanup effort has focused on site studies and cleanup design.

Contributing to the costly and time-consuming cleanup process are: (1) the numerous, complex, and exacting CERCLA cleanup procedures; (2) the lack of an effective DOD system for prioritizing cleanup sites; and (3) the need for better cooperation to facilitate the joint decision-making processes required of DOD, EPA, and state officials.

Complex Regulatory Process

The requirements of the CERCLA process increase the time and costs of DOD's remediation efforts at its high-priority sites. For example, EPA's implementation of CERCLA requires DOD to address issues, such as liability, that are often more applicable to the private sector than DOD.³ For example, private owners of landfills on the NPL are often difficult to hold liable. Although EPA wants to ensure that all the parties contributing to hazardous waste in the landfills pay for the cleanup, these

³Liability is an issue at BRAC installations because these properties can be leased before cleanup is completed. When the land is leased, DOD is still liable for the cleanup costs. Liability is also a consideration on DOD property operated by contractors.

parties have often gone bankrupt or are no longer in business. However, liability is not pertinent at a site where DOD is the only party involved. Nonetheless, DOD is still required to address liability even when it is not an issue.

As we reported in April 1994,⁴ DOD must extensively study thousands of sites, regardless of the extent of contamination. EPA's system for identifying high-priority sites--those on the NPL--has caused DOD to give a large number of individual sites a high priority status. EPA usually considers only the four to six worst sites on an installation, which may have hundreds of sites, in determining whether the installation should be placed on the NPL. However, when CERCLA work is required, all of the sites on an installation are usually given the NPL status, regardless of the threat posed by the individual sites to human health and the environment. As of February 1995, DOD had 126 NPL installations containing 5,785 sites, most of which would not be designated as Superfund sites in the private sector, according to DOD and EPA. On the other hand, some sites not on DOD's high priority installations, and therefore, not designated as high priority, are more contaminated and pose a greater risk to human health and the environment than some of the sites on high priority installations.

EPA lacks the resources to evaluate sites on DOD installations that do not qualify as high priority installations. As a result, DOD officials believe that some of the most contaminated DOD sites do not have access to limited resources for cleanup. For example, according to officials at the Aberdeen Proving Grounds, two of its worst sites, the fire training area and the Phillips Landfill, have not received adequate funding because they are not listed on the NPL.

⁴Environmental Cleanup: Too Many High Priority Sites Impede DOD's Program (GAO/NSIAD-94-133, Apr. 21, 1994).

Need For Improved Prioritization

DOD has not effectively prioritized its environmental projects. For example, in addition to installations on EPA's NPL, DOD gives the highest priority for cleanup to BRAC installations. In many cases this high priority appears to be unwarranted.⁵ Although CERCLA requires that all property be cleaned up or identified as clean before it is transferred to nonfederal owners, federal agencies will retain much of the property at closing installations. For example, DOD is retaining or transferring to federal agencies about 156,700 acres, or 63 percent of the 250,100 acres on installations from the 1988 and 1991 BRAC rounds. This property can be made available to federal users before it is cleaned up. Of the 84 BRAC installations that have submitted cleanup plans, 63 are not on the NPL and would not have otherwise qualified for high priority funding.

Need For Better Cooperation

Both EPA and DOD officials believe a better working relationship could greatly reduce the amount of time and money required to study and clean up contaminated sites under the CERCLA process. They cited McChord Air Force Base as a case where the cleanup process and costs have increased because of limited cooperation. From July 1988 through September 1991, McChord spent \$3.1 million to prepare reports and other documents required to study its cleanup sites. During that time, 25 documents were prepared and often included multiple versions incorporating EPA's and the state's comments. Each version of a plan or report usually cost \$20,000 to \$30,000. The study was not expected to be completed for many more months, and McChord officials did not know what the studies would actually cost.

⁵Military Bases: Environmental Impact at Closing Installations (GAO/NSIAD-95-70, Feb. 23, 1995).

In addition, EPA instructed McChord to perform a risk assessment at two of its industrial sites assuming that condominiums would be built on the site and children would be playing on it, even though industrial activity is expected to continue at these sites. The assessment was also to assume that residents will get their drinking water from a contaminated aquifer that is not used by anyone else in the region. Although EPA officials stated that it does not mean that EPA will require McChord to comply with residential standards, the requirement to study such scenarios for risk assessment may unnecessarily increase costs.

We reported in February 1995 that DOD and regulatory agencies have disagreed on the extent of contamination at BRAC bases. For example, although the services identified about 121,200 of 250,100 acres at 1988 and 1991 closing installations as uncontaminated, EPA and state regulators only concurred on 34,499 acres. The regulators did not agree that many parcels were uncontaminated because activities related to compliance--unexploded ordnance, asbestos removal, lead-based paint surveys, and resolution of issues related to petroleum--were not completed. Also, state regulators were not willing to concur because of concerns about the state's potential liability.

Most of the 34,499 acres identified by regulators as uncontaminated will not likely be transferred. About half is being retained for federal use. According to DOD, most of the remaining property will not be of interest to potential transferees because it is undeveloped, remotely located, or linked to contaminated parcels and cannot be used separately. For example, about 7,000 of the uncontaminated acres at Fort Ord, California are considered unusable because, according to DOD officials, this area has no access to a usable water supply.

**Technology Limitations Hamper More
Timely and Cost-Effective Cleanup**

In many cases, the lack of cost-effective cleanup technologies makes cleanup efforts costly and time-consuming for certain types of cleanup problems, such as contaminated groundwater, large landfills, and unexploded ordnance. These cleanup problems are widespread. For example, of the cleanup plans submitted in April 1994 for 84 BRAC installations, 51 identified polluted groundwater, 67 identified contaminated landfills, and 25 identified unexploded ordnance contamination among sites to be cleaned up. One method for cleaning up groundwater contamination, called pump-and-treat, is expensive and can take decades to complete. Pump-and-treat systems were in place or planned for at least 24 of the 51 BRAC installations with contaminated groundwater. The cleanup plan for unexploded ordnance at the Army's Jefferson Proving Ground included \$216 million in estimated costs to clean up as much as 51,000 acres and noted that costs could run to \$2 billion a year for several years. Current technology is costly because it requires using metal detectors to locate the ordnance, mapping the location of the unexploded ordnance, handling or removing it, and disposing of it. In addition, complete cleanup cannot be guaranteed because if unexploded ordnance is buried below 3 feet, current technology may not detect it, and it can migrate to the surface over time.

Containing and cleaning up contamination depends on developing new, affordable technologies, but these technologies will take time to develop. Our work shows that some of the reasons that new technologies are not used more quickly include the following:

- Conflicting priorities prevent the approval of innovative approaches for cleanup.

- Field officials may associate the newer technologies with unacceptable levels of risk.
- On-site contractors may favor particular technologies on the basis of their own experience and investments.

More Timely and Accurate Management Data Needed

The effort to clean up DOD and other federal hazardous waste sites is likely to be among the costliest public works projects ever attempted by the government.⁶ However, DOD lacks a system for developing reliable cost estimates; as a result, it revises its estimates upward nearly every year. We reported in October 1991 that since 1985, DOD had made several estimates of its long-term cleanup costs.⁷ These estimates had grown steadily from an initial range of \$5 billion to \$10 billion to the latest official estimate of \$24.5 billion made in 1991. The 1991 estimate does not represent DOD's full cleanup liability because (1) it does not include all potential sites to be cleaned up, such as sites at overseas installations or sites on installations included under the BRAC process; (2) studies of most known sites have not been completed; (3) the time required for studies and cleanups could be longer than expected; and (4) some facilities are requiring more cleanup than originally anticipated. DOD has announced that improved cost estimating would be an element in its new system for managing cleanups.

DOD also lacks adequate data to effectively monitor the progress and results of its environmental program. For example, although

⁶Federal Facilities: Agencies Slow to Define the Scope and Cost of Hazardous Waste Site Cleanups (GAO/RCED-94-73, Apr. 15, 1994).

⁷Hazardous Waste: DOD Estimates for Cleaning Up Contaminated Sites Improved but Still Constrained (GAO/NSIAD-92-37, Oct. 29, 1991).

DOD has begun developing baseline data and performance measures for its Fast Track Cleanup program for BRAC installations, standards are needed that will allow DOD to assess the various actions being taken to speed up the cleanup process. We also reported in August 1994 that DOD cannot effectively monitor its cleanup efforts at its radioactively contaminated sites because its database is inaccurate, is outdated, and does not record such basic data as the amount of radioactivity.⁸ Moreover, although DOD has been collecting data since the mid-1980s, precise measures of its progress in preventing pollution are not available because DOD is not required to provide this information to EPA until July 1995.

Measuring progress and results of environmental programs is essential for making funding trade-offs during the current budget environment. Measuring progress requires consistently reporting investment costs and results. However, DOD cannot determine these costs because the services do not consistently budget and report them. For example, some military installations include only investment costs in the research, development, test, and evaluation appropriation, while other installations include not only investment costs but also normal installation operating costs.⁹

COST SHARING OF CLEANUP LIABILITIES

A major issue facing DOD is how to share cleanup costs related to the production of military goods and other defense contractor activities. Cleanups may occur on DOD property, defense contractors' property, or third-party sites. Although total

⁸Environmental Cleanup: Better Data Needed for Radioactively Contaminated Defense Sites (GAO/NSIAD-94-168, Aug. 24, 1994).

⁹Environmental Compliance: Guidance Needed in Programming Defense Construction Projects (GAO/NSIAD-94-22, Nov. 26, 1993).

costs are unknown, we testified before the Congress in 1993 that the top 15 defense contractors' estimates of past and known future cleanup costs totaled \$3.1 billion for their sites and third-party sites.¹⁰ In 1994, we reported that DOD's estimate for cleaning up 78 government-owned, contractor-operated facilities and one large case involving a private company at the Rocky Mountain Arsenal totaled another \$2.7 billion.¹¹ We found these estimates significantly understated. According to military service and Defense Logistics Agency data, projected costs will be about \$3 billion, or \$1.24 billion more than DOD reported. Our work at selected government-owned, contractor-operated facilities and the Rocky Mountain Arsenal showed that future costs are likely to be even greater. For example, a recent court action allowed the state of Colorado to impose additional requirements for cleaning up the Arsenal. Army officials told us these requirements could add from \$1 billion to \$20 billion to the cleanup cost.

If DOD pays cleanup costs related to a contractor's activities, the contractor remains a potentially responsible party under CERCLA, and DOD could seek reimbursement or contribution from the contractor or its insurer. The reverse is also true for contractor-owned facilities; the contractor can seek a contribution from the government.

We reported in October 1992 that, at contractor-owned and operated sites, DOD's decisions on whether to pay contractors'

¹⁰Environmental Cleanup: Unresolved Issues in Reimbursements to DOD Contractors (GAO/T-NSIAD-93-12, May 20, 1993).

¹¹Environmental Cleanup: Inconsistent Sharing Arrangements May Increase Defense Costs (GAO/NSIAD-94-231, July 7, 1994).

costs varied widely.¹² The decisions varied from denying reimbursement to approving it in proportion to DOD's share of a company's business. Our July 1994 report stated that, at DOD-owned sites, DOD typically assumed responsibility for cleanups, although others sometimes participated in the cleanups. Cost sharing at DOD-owned sites also varied widely: from no DOD effort to seek reimbursement, to \$250 million recovered so far from one company.

**DOD's Payment of Environmental
Cleanup Costs at Private Facilities**

Our early work in 1993 showed that although DOD had not estimated its potential liability for reimbursements to contractors, the claims could be substantial. DOD had no comprehensive regulations governing such reimbursements, and still does not. Although the Federal Acquisition Regulation does not expressly address the allowability of contractors' environmental cleanup costs, DOD has treated such costs as normal, reimbursable business expenses. Contracting officers are responsible for determining allowability.

DOD's treatment of contractors' claims for environmental cleanup costs has varied in key respects and has resulted in inconsistent decisions. We reviewed reimbursement practices at four high priority sites; two contractor-owned and-operated properties (Aerojet in Sacramento, California, and Lockheed in Burbank, California) and two third-party disposal sites (used by Boeing near Seattle, Washington). We noted inconsistencies in the way DOD determined allowability of costs, including considerations of wrongdoing, insurance coverage, and profit. For example, one contracting officer investigated potential violations of federal

¹²Environmental Cleanup: Observations on Consistency of Reimbursements to DOD Contractors (GAO/NSIAD-93-77, Oct. 22, 1992).

or state environmental laws in one case, but others did not. In the former case, the contracting officer used the evidence of noncompliance to deny the contractor's claim for reimbursement of cleanup costs.

DOD's Payment of Environmental Cleanup Costs at DOD Facilities

A significant part of DOD's environmental contamination has involved defense contractors and other private parties. Some of these private parties performed no services for DOD, but leased property from it. We reviewed DOD cost-sharing policies and practices applicable to 80 DOD facilities with contractor operators and lessees and found that DOD policies varied widely on whether and when to seek contributions from potentially responsible parties. Generally, contractor operators have not been asked to share cleanup expenses. Also, we reported in November 1994 that military services have sometimes provided advance assurance to hold contractors harmless for environmental contamination.¹³ In other cases, responsible parties have been pursued for contributions.

DOD's POLLUTION PREVENTION AND COMPLIANCE EFFORTS

DOD has been slow in preventing or minimizing the generation of pollution, and the costs to do so have not been defined but are expected to be high.¹⁴ For example, DOD's efforts have focused on treating and controlling pollution generated from its activities rather than eliminating the use of toxic chemicals. DOD is in the early stages of two efforts that are key first

¹³Environmental Cleanup: Defense Indemnification for Contractor Operations (GAO/NSIAD-95-27, Nov. 25, 1994).

¹⁴Pollution Prevention: Status of DOD's Efforts (GAO/NSIAD-95-13, Nov. 9, 1994).

steps to reducing its use of toxic chemicals. These efforts involve measuring its releases of toxic chemicals into the environment from installation activities and identifying the uses of toxic chemicals specified in military specifications and standards that govern the design, manufacture, maintenance, and operation of weapon systems and facilities. DOD expects to report its releases of toxic chemicals by July 1995. However, it may not complete its review of specifications and standards until the year 2000. DOD will not know the scope or magnitude of its pollution prevention requirements until these efforts are complete. In addition, the services have not comprehensively incorporated environmental concerns in the design, development, and production of new weapon systems.

The 1976 Toxic Substances Control Act specifically cited PCBs (polychlorinated biphenyls) as a threat to human health and restricted the manufacture and use of equipment containing this substance. However, the services and installations do not always identify PCB items for replacement because DOD has not provided adequate guidance. In addition, some installations were still not meeting the EPA requirements for monitoring, storing, and disposing of PCB items.¹⁵

MANAGEMENT OF NATURAL RESOURCES ON PUBLIC LANDS WITHDRAWN FOR MILITARY USE

The Military Lands Withdrawal Act of 1986 removes more than 7 million acres of land from public use until the year 2001 and devotes them to the military services for training and weapons and equipment testing purposes. The withdrawn lands, which have been under military control since the 1940s and 1950s, include

¹⁵Environmental Compliance: DOD Needs to Better Identify and Monitor Equipment Containing Polychlorinated Biphenyls (GAO/NSIAD-94-243, Aug. 24, 1994).

six sites located in the states of Alaska, Arizona, Nevada, and New Mexico.¹⁶

The law defines how DOD and Department of the Interior agencies are to operate in managing the resources of land controlled by the military. We examined the operations at all six sites named in the act to determine whether (1) resource management activities had constrained military operations, and (2) military operations had constrained resource management activities. We found that military operations at these sites had generally not been hampered by concerns for natural resources, such as wildlife. Military officials in charge of training operations said they had adjusted operations to enhance or protect resources at five of the six locations. However, we could not determine the impact of military operations on resource conditions on these lands due to the lack of baseline data required to measure changes in resource conditions.¹⁷

Additionally, we found little evidence that top managers of military services and Interior agencies had taken steps to ensure cooperation in managing resources at these sites. For example, Fish and Wildlife Service officials at Nellis Range told us that the military was generally uncooperative in resource management and that the Air Force constructed military roads, targets, and facilities on the refuge without informing the Refuge Manager. Further, we were told that, without consulting Fish and Wildlife Service managers, the Air Force had stored on the refuge some tank targets contaminated by depleted uranium. Air Force

¹⁶The specific sites are (1) Fort Greely Maneuver Area and Air Drop Zone; (2) Fort Wainwright's Yukon Maneuver Area, both in Alaska; (3) Goldwater Air Force Range in Arizona; (4) Nellis Air Force Range; and (5) Bravo-20 Bombing Range, both in Nevada; and (6) McGregor Range in New Mexico.

¹⁷Natural Resources: Defense and Interior Can Better Manage Land Withdrawn for Military Use (GAO/NSIAD-94-87, Apr. 26, 1994).

officials said they had no record of coordination on these matters. Subsequent to our review, DOD reported several corrective actions to address these issues.

ACTIONS NEEDED TO IMPROVE DOD's PROGRAM

We have made a number of recommendations in previously issued reports that we believe remain valid and, if acted on, would improve the management of DOD's program and alleviate some of the problems I have discussed today. Specifically:

- To eliminate the excessive number of high priority hazardous waste sites which we believe impedes the progress of DOD's cleanup efforts, we recommended that DOD and EPA revise the system for designating high priority sites and reduce their number to a more manageable level. In addition, DOD may want to examine the potential for increasing progress with available resources by focusing on those sites having common problems that can be cleaned using commonly available remedies while postponing work at more complicated sites that require costly remedies or new technologies.
- To improve the base closure and realignment process, we recommended that DOD (1) develop better environmental program cost estimates for affected sites, (2) limit the scope of base closure cleanups to only those required for compliance or that are cost-effective, and (3) establish standards that allow assessing progress made in these cleanup efforts.
- To ensure the information needed to manage contaminated site restoration and support DOD's decision-making processes is both accurate and available, we recommended that DOD (1) require the Defense Logistics Agency and the military services to correct existing data errors, (2) ensure that needed data are reported to the Office of the Secretary of

Defense at least four times a year as required, and (3) modify reporting requirements to include data on the types and amounts of specific contaminants. Our recommendations were based on work involving low-level radiation; however, the system is the same for all hazardous waste under the Defense Environmental Restoration Program, and we believe they could be applied DOD-wide.

- To help prevent excess defense costs, we recommended that DOD improve cost information and provide guidance to the military services to resolve disparities in cleanup responsibilities and costs. We suggested that the Secretary of Defense consider issues such as (1) the development of incentives to minimize contamination and to ensure fair allocation of costs among DOD and private parties and (2) the question of whether contractors should subsequently be permitted to recover from DOD either part or all of the contributions they made toward cleanup.
- To improve compliance with legislation and implementing regulations, we recommended that DOD require the military services to fully comply with the Toxic Substances Control Act and EPA regulations by implementing a follow-up program to ensure that deficiencies are corrected. We further recommended that the Administrator of EPA (1) require installations to report on actions being taken to remedy instances of noncompliance and (2) improve the timeliness of follow-up inspections at DOD installations.

In general, DOD has agreed with our recommendations and is taking steps toward their implementation.

Mr. Chairmen, this concludes my statement. I will be happy to answer any questions you may have at this time.

(709130)

Mr. BATEMAN. Thank you, Mr. Warren.

Let me offer a comment or two and then ask you all to focus on a rather general question.

In the 13 years I have been in the Congress, my experience has almost universally been that whatever the degree of exhortation, it takes a lot of time before the Department of Defense and, for that matter, other Federal agencies really can respond in a way that is cost effective even when they undertake to do so. Things just seem to move so slowly even when they get the message and are inclined to change in terms of their management and administration of things.

I don't know that there is anything I can say to the Department of Defense in report language or in statute that is going to accelerate that process dynamically, but given the kind of costs that we are dealing with here and the impact upon the defense budget, I believe it ought to be something that reaps a more immediate fiscal dividend if we were to address some of the existing statutory law and regulations which are adding to cost beyond any reasoned impact upon public health and safety.

I'm impressed with the information this morning that the Federal Government has bound itself to compliance with State regulation and requirements even though they may be in excess of those which are in Federal law, which my private constituents advise me are oftentimes extremely excessive. Has it always been the case throughout our history that the Federal Government bound itself to more rigid State requirements in terms of its dealings with Federal property located within States? Has that always been the law?

Ms. WILLIAMS. We think that came with the Superfund law, but I wouldn't swear to that.

Mr. BATEMAN. It would be helpful, if you had the resources, if you could give us an authoritative answer as to when we did subject the Federal Government to those more excessive and stringent standards than Federal law would otherwise require.

Ms. WILLIAMS. We will go look that up.

Mr. WARREN. We will as well, sir.

[The following information was received for the record:]

Question. Provide information explaining why state standards, which can be harsher and stricter than federal ones, are sometimes applied to the cleanup of hazardous sites located on federal/DOD installations and facilities.

Response. Generally, environmental cleanup actions on military bases are subject to state and federal environmental requirements. Each principle federal environmental law includes a waiver of sovereign immunity to make state and local environmental requirements applicable to federal facilities. Also, most federal environmental laws allow states to bring enforcement actions against federal facilities to ensure compliance with both state and federal requirements. The following discussion describes how states become involved under the two federal environmental laws that have the greatest impact on the cleanup of federal facilities.

Resource Conservation and Recovery Act of 1976 (RCRA), as amended by the Hazardous and Solid Waste Amendments of 1984 (42 U.S.C. §§6901-6981)

The purpose of RCRA is to regulate solid and hazardous waste management by establishing a "cradle-to-grave" regulatory scheme for hazardous waste management that applies to persons who generate, handle, transport, treat, store, or dispose of hazardous wastes.

A state may enforce its own solid or hazardous waste laws in lieu of EPA enforcement of RCRA provisions if EPA finds that the state program is "substantially equivalent" to federal regulations. In 1992, the Federal Facilities Compliance Act

amended RCRA to make clear that federal facilities are subject to local, state, and federal civil penalties (42 U.S.C. §6961).

States can issue administrative orders under state law to federal facilities to require corrective actions and they can also bring actions in court under state law or under RCRA's civil suit provisions. RCRA (42 U.S.C. §6972(a)) specifically includes states in the definition of persons that may file suits.

Comprehensive Environmental Response Compensation and Liabilities Act of 1980 (CERCLA), as amended by the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C. §§9601-9675)

CERCLA was enacted in 1980 to clean up leaking, inactive, or abandoned sites and provide emergency response to spills. In 1986, Congress added section 120 (42 U.S.C. 9620) to CERCLA to specifically require federal agencies to comply with the act, both substantively and procedurally to the same extent as any private party. Section 120(a)(4) also includes a limited waiver of sovereign immunity that provides that "State laws concerning removal and remedial action, including State laws regarding enforcement, shall apply . . . to Federal facilities not on the National Priorities List." States may not, however, apply any standard or requirement to a federal facility that is more stringent than the standards and requirements applied to non-federal facilities.

Like RCRA, CERCLA specifically authorizes states to bring civil actions against federal facilities to enforce compliance with the requirements of the act (42 U.S.C. 9659(a)). When federal and state requirements differ, the more stringent of the two applies. Under section 121 of CERCLA (42 U.S.C. §9621(d)(2)(A)), any applicable or relevant and appropriate requirements, commonly referred to as ARARs, become part of the cleanup standards for remedial action at an NPL site. State enforcement at non-NPL sites arises from waiver of sovereign immunity in section 120. Many states also have separate Superfund programs that may apply to non-NPL sites.

Mr. BATEMAN. Reference was made in the testimony by Secretary Goodman that under Superfund if there was a contaminated site on a military installation the installation was affected fence to fence, as I think she used the phrase. Is that your understanding?

Mr. WARREN. Yes, it is. We found that in our work.

Basically, what occurs is EPA will go in and look at about four to six sites on an installation to make its determination. There could be a number of sites on a base, sometimes up to 100 and sometimes more. Once that determination is made from that four to six sites, then that entire site becomes a Superfund site and is given priority for funding. And that was a point that we were making, that in some instances sites on installations that are really not that bad are receiving money where sites on other installations that may have severe problems are not receiving funding because they have not received the NPL status.

Mr. BATEMAN. To get at that problem, do we have to change the law, or is that by virtue of an EPA regulation?

Mr. WARREN. My understanding is, it is the implementation. In other words, that is something under the prioritization process that could be changed right now through streamlining, so to speak, of processes and procedures.

Mr. BATEMAN. If you have any ideas you want to share with the subcommittees either in your testimony today or, if not, if you would submit for the record sort of a laundry list, an inventory of changes in law which at least are worthy of consideration in the context of reducing costs without substantial adverse effects on public health or safety. This is a critical area that I think it is our responsibility to examine, recognizing, of course, that this is the National Security Committee and we are not the Natural Resources Committee or the Energy Committee but, hopefully, we may be able to influence things that they are going to be undertak-

ing in their reauthorization of a number of these environmental laws, and, hopefully, we might even have some cooperation with them where the nature of the activities relates to the Department of Defense. They might see fit to give us some latitude in dealing with Department of Defense facilities in a distinct and separate manner wherever it might be justified.

Let me pose the hypothetical that you have a Department of Defense facility which is subject to a very heavy level of contamination but which offers no risk of it impacting ground water quality and air pollution beyond the immediate boundaries of the property, has no risk of exposure of anyone to toxins, and would cost a billion dollars to clean up the site to any meaningful economic use or exploitation, but any such use or exploitation of the property would give it a value that was de minimis relative to the billion dollars needed to clean it up. Are we required now, nonetheless, to clean it up or could we simply say this is property that is lost to any use because of the economic infeasibility of restoring it to a condition where it might be used where no one could project a use that would in any way give an economic payback for having made the investment?

Ms. WILLIAMS. Sir, my understanding is that there is not one requirement there, that that case would be decided based upon negotiations between the Federal Government, the State, and, if it is an NPL site, the EPA. There are some cases where either the EPA or the State has been extremely conservative in its view of the standards to which you would have to clean up that site.

So even if DOD said our plan for this site is to turn it into a game preserve or to put a fence around it and never let anybody in there, in some cases the State or the EPA have responded back asking for a scenario to cost to that, including bringing all the way to residential standards, has actually asked for the cost of restoring it to a condition so that you could put condominiums and playgrounds there.

The problem that we see is that there isn't one national way of treating a case like that; the cases are treated disparately by different States.

Mr. WARREN. I would agree with that, and we did see some cases where—and we cite McChord in our testimony where I think they did something like 2 years of study, \$3 million were spent, 25 studies, and were still unable to come to resolution on this particular issue. As was mentioned, what appeared to be unreasonable studies were being made with regard to how that property might actually be used in the final analysis.

We also see that going on somewhat in the base closure process in particular, Jefferson Proving Ground is a good example, and you are having to work out what you are going to do with that particular facility. Cleaning it up appears to be prohibitive in terms of cost, and going to some other option of fencing and maintaining that property seems to make a lot of sense.

Mr. BATEMAN. You know, I have a very healthy regard for the rights of States and local government. I used to be a State legislator and from that experience I am very well aware that what conditions, standards, and requirements you impose upon someone get a lot higher when you don't have to bear the fiscal and tax and eco-

conomic consequences of keeping on the additional requirements. So I take it, it is your view that some discreetly, soundly based, national standards for situations like this would be a contribution to Federal law.

Ms. WILLIAMS. It is CBO's view that that would be a possible way of reducing costs, Mr. Chairman.

Mr. BATEMAN. I notice that my cochairman, Mr. Hefley, is here. I'm sorry for having taken so much time. Let me yield to him for any questions he may have.

Mr. HEFLEY. No, Mr. Chairman, I didn't get back, and so I don't want to repeat what you have probably covered very adequately.

Let me just ask though—the issue was raised earlier about State or local—someone who would get the property in the long run paying for the cleanup, and if we are going to give them the property free why shouldn't they pay for the cleanup? But maybe we don't want to go that far. What do you think of the idea of a participatory thing? Yes, we will give you the property, or we will sell you the property, or whatever, if you pay 50 percent of the cleanup. If you don't want to do that, then we'll keep the property, you don't get it, and you don't build condominiums on it, and you don't get to do anything else with it, we'll just keep it. We probably couldn't do that under current law, but maybe we can. Can you comment on that? But if we change the law to that effect, what would be your reaction to that?

Mr. WARREN. I think under current law they would have to go—the scenario that you painted—they would have to do the cleanup, and they would get the property, and——

Mr. HEFLEY. We do the cleanup, they get the property?

Mr. WARREN. Yes, sir.

Mr. HEFLEY. But we don't have to give them the property, do we? We don't have to sell the property. I mean it is Federal Government property.

Mr. WARREN. You do not, no. In other words, we could keep it in our own domain; that is quite correct, and a lot of this property is, and I think you are aware of that. I'm speaking to the BRAC now, sir.

Mr. HEFLEY. Yes.

The reason I suggest that is—and let's use Rocky Mountain Arsenal again as an example. If the State of Colorado had a stake in the expense of cleaning up the Rocky Mountain Arsenal, I think maybe they would be a lot more reasonable about the level at which they wanted it cleaned up. So if they participate in it, it seems to me that makes some sense.

Mr. WARREN. I would agree that involving the stakeholders and creating incentives for all parties involved makes sense. Yes, sir.

Mr. HEFLEY. Thank you very much, Mr. Chairman. That's all I have.

Mr. BATEMAN. The gentleman from Maryland, Mr. Bartlett.

Mr. BARTLETT. Thank you very much.

Ms. Williams, you indicated that one of the ways of reducing cleanup costs was to postpone a cleanup when there was no immediate threat and later there might be cheaper ways of cleaning it up, so there are two savings, an immediate saving and a long-time saving.

My question is: There is no immediate threat; there is unlikely to be any future threat because most environmental contamination becomes ameliorated with time. If there is no immediate threat, why would we ever want to clean it up and go to that expense?

That is kind of a rhetorical question, and I think the answer is, you know obviously that anybody who was really interested in a cost-benefit kind of an approach to the solution of problems wouldn't want to do that.

Let me just ask a generic kind of question. If, in fact, a contaminant is not spreading to an aquifer that is going to endanger a large area, if, in fact, it would be ameliorated by time, why—and set aside for a moment your obligations under statute—why would we want to spend any money cleaning it up if it is only going to get better with time? We could make a nature preserve of it. If that wasn't considered prudent, you could simply plant some trees and lock the gate and come back in 50 years and harvest the trees.

It seems to me that with the very limited dollars that we have—and we don't spend dollars, by the way, in cleanup as if there was any limit to the amount of money that we have; it is profligate and inane the way we spend money in cleanup. But why wouldn't it make sense if the contaminant is not spreading so that it is going to endanger a broader area, if, in fact, it is going to be ameliorated with time? It is now being used by our young men and women in the military, and certainly the trees are not going to be more damaged than they. Why don't we simply plant trees, lock the gate, come back in 50 years and harvest the timber if that is the best use that can be made of it? It seems to me that any sane cost-benefit approach to a solution of a problem would demand that kind of thing. Do we need legislation that would permit us to make that commonsense kind of a solution to the problem?

Ms. WILLIAMS. Thank you, sir.

CBO thinks that some of the most creative ideas that have come out are along the lines of what you are talking about. Some of the ones for establishing nature preserves or wildlife preserves, fencing the areas off and leaving them are probably some of the best ways to cut costs in cases where you are not looking to reuse the property in another way, and for some of the ones that have the most monumental expenses to clean up, especially the ones with the chemical warfare materials or some of the ones with unexploded ordnance that is buried, those might be the most creative solutions and certainly the most cost effective.

On your question of would you ever have to go back and make the expensive improvements to remediate, I think there are two situations where you would. One is if you decided that you just had to reuse it in a different way, and the other would be if the contaminants were spreading. Now you wouldn't have that case presumably with buried ordnance, but you might have that case with ground water problems.

Mr. BARTLETT. Yes, I think that my question indicated that if the contamination was not spreading, if it would be ameliorated with time, and, you know, even if it is spreading but if the amelioration is at least equal to the spread, then it is not going to get worse in the future, and we don't have to put kindergartens on every square foot of property that is turned over by the military to civilians

where the kids are going to eat the soil. We just don't have to do that. There are other alternative uses, and if you need to clean it up because you have to use it, that would mean that the cost of cleanup is worth it because it is now an economic decision, isn't it? I can't imagine that you have to use some property that is not economically feasible to use.

Ms. WILLIAMS. I think you are right, sir.

Mr. BARTLETT. Thank you very much, Mr. Chairman.

Mr. BATEMAN. Does the gentleman from Colorado have further questions?

Mr. HEFLEY. I do not, Mr. Chairman.

Mr. BATEMAN. Then it appears that we are finally going to let you go. We do want to thank you very much for appearing. Your written statements are very helpful to us. Your answers to the questions that we have asked, though we have asked fewer than we probably needed, have also been helpful.

I would very deeply appreciate it if you would respond for the record on the inventory of laws. We don't expect you to draft proposed statutory changes but to review the existing body of statutory law as to where we might responsibly be able to effect significant economies without a negative environmental tradeoff.

I am generally aware that you are not in the business of drawing policy conclusions, and so we aren't asking you to tell us these are the things in fact that you ought to do, but it would help us to make sure that we have at least evaluated the range of choices, if you could furnish us that kind of information.

Ms. WILLIAMS. Yes, Mr. Chairman.

Mr. WARREN. Yes, sir.

Mr. BATEMAN. Thank you all very much.

[Whereupon, at 1:05 p.m., the subcommittees were adjourned.]

[The following questions were submitted for the record:]

CBO RESPONSE FOR ADDITIONAL INFORMATION REQUESTED AT
THE CONCLUSION OF THE HEARING ON DOD'S ENVIRONMENTAL PROGRAM
ON MARCH 24, 1995

Q: I would very deeply appreciate it if you would respond for the record on the inventory of laws. We don't expect you to draft proposed statutory changes, but to review the existing body of statutory law as to where we might responsibly be able to effect significant economies without a negative environmental trade-off. I am generally aware that you are not in the business of drawing policy conclusions, and so we aren't asking you to tell us these are the things in fact that you ought to do, but it would help us to make sure that we have at least evaluated the range of choices, if you could furnish us that kind of information.

Answer: There are a variety of ways to reduce spending for environmental programs. Except for alternatives that might increase the efficiency of management and oversight or invest in more cost-effective remedial techniques, most options would entail either delaying environmental programs or altering them in such a way as to increase the risks of pollution to human health or safety. Cost and effectiveness trade-offs are inevitable when considering delaying programs or reducing the stringency of requirements.

CBO has reviewed major environmental legislation and identified a variety of measures that could reduce environmental costs or enhance potential revenues. Each item simply identifies an option and suggests benefits and potential risks or costs that could be associated with a change in the law. The Congress could consider asking the Department of Defense and other federal agencies to analyze the following ideas in order to provide a more rigorous analysis of their costs and benefits.

1. Waive the Current Requirement to Complete Cleanup Before the Sale or Transfer of Surplus Federal Property to Nonfederal Entities
CERCLA section 120(h)(3) requires that before a deed for federal property may be transferred to a buyer, the government must have completed all remedial action necessary to protect human health and the environment. Legislation governing the closing of defense bases requires that once the Congress approves them, closures must be completed within six years of the President's recommendations. The affected communities are eager to reuse former military properties in order to offset the loss of local economic activity that former bases provided. CERCLA's requirement to complete cleanup before property can be sold or transferred to a nonfederal entity

could require that a remedial project be accelerated in order to be completed before a base is closed. Accelerating cleanup plans is likely to increase the cost of restoration beyond initial estimates for the time that it takes to close a base, and could increase the overall cost of a project. If DoD is unable to complete cleaning up polluted sites before closing a base, former military property could remain unused and therefore unproductive until remediation is completed.

The additional cost of accelerating the cleanup for bases that are closing could be avoided if the Congress waived the CERCLA requirement to complete cleanup before property can be sold or transferred to nonfederal entities. While allowing a sale or transfer to go forward and permitting reuse of property in a timely manner, a waiver would permit a cleanup program to extend beyond the six-year period and could therefore reduce annual spending during the closure period. Such flexibility might make some property more appealing to potential purchasers who wish to reuse it without having to wait for cleanup to be completed. Indeed, some potential purchasers might be willing to assume the costs of cleanup as part of the terms of sale. Such arrangements are permissible for sales in the private sector and could be permitted in federal sales to private purchasers if the Congress chose to revise CERCLA. Stretching out cleanup programs, however, could add to long-term costs if additional expenses were thereby incurred. Alternatively, stretching out cleanup programs could lead to long-term savings in some cases if more cost-effective remedial technologies became available and were applied.

2. Revise Provisions Favoring Permanent Remedial Methods and Most Stringent Cleanup Standards. CERCLA section 121(a) directs that selection of a remedial action should be cost-effective in both the short and long term, and also requires that remedial actions that favor permanent and significant reduction of contamination be preferred over other alternatives. Permanent remedies, however, may not necessarily be the most cost-effective means of meeting cleanup standards. Interim cleanup measures accompanied by periodic monitoring may be able to meet cleanup standards at lower cost. Revising CERCLA to encourage flexibility in selecting remedial actions could reduce near-term costs when interim cleanup measures are adequate to address contamination problems without adversely affecting property and maintenance of public health and safety.

CERCLA's preference for using permanent remedies is consistent with its requirement that the strictest cleanup standards apply in cases in which jurisdictions disagree. In some instances, permanent remedial actions that meet the strictest cleanup standards may be inappropriate for the actual

or likely use of a property. For example, under current legislation, cleanup standards necessary to support residential use could be required to apply to property intended for use as an industrial park. Properties may not be used as initially planned, however, or may be reused in some other way in the future that requires more stringent cleanup standards. Cleanup efforts added to meet changing uses could end up increasing the long-term cost of cleanup. In the near term, however, revising CERCLA to permit remedial measures that are consistent with the intended use of a property could lead to significant savings later.

Greater flexibility in using interim cleanup measures and cleanup standards appropriate to the likely use of a property could, however, pose additional risks to public health and safety. Such risks could be difficult to identify and measure and could elevate public concerns that could impede less restrictive cleanup measures.

3. Revise or Revoke the Federal Facility Compliance Act of 1992. The Federal Facility Compliance Act of 1992 amended the Resource Conservation and Recovery Act of 1976 to state that federal facilities, including defense properties, are subject to all federal, state, and local regulations and judicial remedies outlined in the Solid Waste Disposal Act (SWDA) as modified by RCRA and subsequent legislative amendments. RCRA authorized the Environmental Protection Agency to set standards for facilities that generate or manage hazardous waste and established a permit program for hazardous waste treatment, storage, and disposal facilities. As a result of the Federal Facility Compliance Act, federal agencies, including the Department of Defense, waived immunity to all civil and administrative penalties and fines and to liability for reasonable service charges for administering the RCRA permit process. The Congress could consider reinstating immunity for federal agencies that would eliminate their liability for penalties, fines, and service charges and maintain requirements for safe handling and storage of solid wastes in accordance with EPA standards. Any savings that DoD might achieve by reinstating immunity would probably be modest, however, since the department has been assessed with only approximately \$16 million in penalties, fines, and service charges since 1993.

The 1984 Hazardous and Solid Waste Amendments to SWDA require that all hazardous waste facilities owned by the federal government be inspected annually. Privately owned facilities must also be inspected at least every two years. Costs could be reduced for federal facilities by requiring that they be inspected biennially. Less frequent inspections, however, could increase the risk of unidentified contamination that could endanger public health and the environment. But changing to biennial inspections for federal

facilities would entail no greater risk than is assumed for facilities in the private sector.

The Congress could also choose to revoke the Federal Facility Compliance Act, removing federal facilities' responsibility to meet RCRA standards. Revocation could reduce DoD spending on handling, storing, and transporting hazardous waste because departmental standards are sometimes less demanding than those set by EPA and the states. Lower standards, however, could increase the risk to public health and safety. Also, if the act were revoked, DoD would not be liable for the payment of inspection fees, penalties, fines, and service charges associated with carrying out EPA or state standards and managing the permit process. Revocation, however, would reintroduce inconsistencies between federal and private applications of the law.

4. Revoke Federal Liability to Pay Penalties and Fines for Non-compliance. A number of environmental statutes such as the Clean Air Act, the Clean Water Act, the Ocean Dumping Act, the Toxic Substances Control Act, and the Safe Drinking Water Act contain provisions that hold federal agencies liable for penalties and fines for not complying with the standards and procedures outlined in those laws. The Congress could choose to remove federal liability but retain requirements to comply with standards and procedures. Potential savings to DoD would be modest, however, since the department has been assessed only about \$16 million in penalties and fines since 1993. But removing the liability could eliminate incentives that are critical in furthering compliance with standards applicable to nonfederal entities. In addition, revoking the liability for federal installations would make standards for the private sector inconsistent.

GAO RESPONSE FOR ADDITIONAL INFORMATION REQUESTED AT CONCLUSION
OF HEARING ON DOD's ENVIRONMENTAL PROGRAM ON MARCH 24, 1995

- Q: Provide a list of possible changes to existing environmental laws that the Committee could consider and that would reduce the costs of DOD's program without adversely affecting health and safety.

Response: GAO's key objective in evaluating DOD's environmental activities has been to identify ways to enhance overall program management by increasing efficiency and improving cost-effectiveness. Key problems our work has identified over the past several years include (1) the numerous, complex, and exacting CERCLA cleanup procedures; (2) the lack of an effective DOD system for prioritizing cleanup sites; and (3) the need for better cooperation to facilitate the joint decision-making processes required of DOD, EPA, and state officials. Our work further suggests that certain problems could likely be corrected by changing implementing regulations within existing law and by taking the steps necessary to establish a reasonable framework to ensure better working relationships among the affected parties. Improvements in these areas could save both time and money and are reflected below.

- EPA's implementation of CERCLA requires DOD to address issues, such as liability, that are often more applicable to the private sector than DOD. Liability is not pertinent at a site where DOD is the only party involved, yet this area is addressed and studied.
- EPA's system for identifying high-priority sites has caused DOD to assign a large number of individual installation sites a high priority status, although many represent minor threats to human health or the environment. When CERCLA work is required, all of an installation's sites are usually given NPL status even though EPA usually evaluates only the four to six worst sites at an installation. On the other hand, some sites not assigned a high priority are more contaminated and pose a greater risk than some installations designated high priority.
- DOD gives the highest priority for cleanup to BRAC installations. However, such high priority appears to be unwarranted in the many cases when federal agencies will retain the property. While CERCLA requires that all property be cleaned up or identified as clean before transfer to nonfederal owners, it can be made available to federal users before cleanup.
- Both EPA and DOD officials believe a better working relationship could greatly reduce the amount of time and

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money required to study and clean up contaminated sites under the CERCLA process. McChord Air Force Base is cited as a case where the cleanup process and costs increased because of limited cooperation. Our work at Fort Wainwright, Alaska, found a contrasting example of a cooperative program that has worked so well that the Army uses it in its training program as an example of how the cleanup process should and can work. Other DOD installations may benefit from this approach.

Questions for the Record
House Committee on National Security
Subcommittee on Military Readiness
Hearing on Department of Defense Environmental Issues
March 24, 1995

Ms. Cindy Williams
Assistant Director for National Security
Congressional Budget Office

Question 1. Most of the clean-up activities undertaken by the Department of Defense are accomplished by contracting with private firms which are monitored by the services. What is your assessment of how well the services are managing the contracting process? What efforts have the services made in scrutinizing environmental clean-up contracts to minimize cost overruns and to eliminate waste and inefficient operating and management practices? How successful have the services been in these efforts?

Answer: The Congressional Budget Office (CBO) did not review the effectiveness of the services' oversight of the contracting process as a part of its recent paper, "Cleaning Up Defense Installations: Issues and Options," and is not able to comment on whether the services have performed this function successfully.

Question 2. CBO's recent report on cleaning up defense installations notes that so far, DoD has been able to provide sufficient funds to meet existing legislative and regulatory requirements associated with environmental programs. However, as costs for environmental programs continue to increase, it is clear that DoD will increasingly have to set priorities for competing demands for funding. How would you recommend that DoD prioritize its environmental spending to ensure that the most pressing environmental requirements are met? What steps would you recommend that DoD take in order to help control ever increasing environmental costs?

Answer: CBO provides the Congress with independent analyses and estimates, but as a nonpartisan support agency it does not make recommendations on policy. CBO does, however, present options and alternatives for the Congress to consider and discusses their advantages and disadvantages in a balanced way. In seeking ways to ensure that DoD's most pressing environmental cleanup tasks are performed within budgetary constraints, the Congress could consider requiring the Department of Defense to establish and report on a scheme of priorities to govern funding for the Defense Environmental Restoration Program and cleanup projects for bases that are closing under the Base Closure and Realignment Commission process. By

integrating various concerns into an overall prioritization scheme, the department could negotiate agreements to clean up sites having the highest priority and ensure that sufficient funding is provided each year to carry out the terms of those agreements. In this way, the Congress and the department could ensure full funding for those contaminated sites having the highest priority each year, regardless of variations in budget levels. If program adjustments were needed as a result of funding constraints, only projects having the lowest priority would be affected.

In evaluating DoD's scheme of priorities, the Congress could review the relative importance that DoD assigns to a variety of concerns, including, the threat to public health and safety from contamination. Those contaminated sites that pose the most significant threat, such as spills that generate public health and safety emergencies, or particular sites or operational units on facilities included on the National Priorities List (NPL), could receive the highest priority. Other, less contaminated sites, including those on NPL facilities that do not pose an immediate threat, could be assigned lower priorities on the basis of a methodology of risk assessment sufficiently accurate to characterize their potential impact on health and safety. DoD has recently developed a methodology of relative risk assessment that could serve as a basis for measuring this area of concern.

A prioritization scheme could also consider cleanup projects for contaminated properties on bases that are closing. Given communities' needs to accelerate the reuse of assets when closing bases, cleaning up properties that have higher potential economic value could enhance their salability and accelerate local economic recovery. Cleaning up commercially feasible properties on former bases in communities that have been particularly hard hit by base closures or realignments could merit higher priority. Property on former bases that is less marketable or otherwise restricted from reuse could be assigned lower priority for cleanup funding.

A comprehensive prioritization scheme could also incorporate existing legal obligations governing cleanup tasks and schedules. Cleanup requirements established by law or through interagency agreements governing the completion of various phases of the cleanup process within a designated time could be assigned higher priority for funding. In addition, the department could also consider assigning higher priority to funding those projects that are closest to completion.

The department could consider assigning lower priority to more costly cleanup efforts involving unexploded ordnance and contaminated groundwater in those situations in which public health and safety would not be endangered. Delaying cleanup in such cases could also contribute to long-

term savings if new, more efficient technologies were developed and applied at a later date. DoD estimates, for example, that it might be able to cut the cost of cleaning up buried ordnance by 33 percent using technology that it is now developing.

Question 3. What types of unique technologies exist and what are their capabilities?

Answer: In June 1993, the U.S. Army Corps of Engineers briefed the Congressional Budget Office on the Tri-Service Environmental Quality Research and Development Program. As a part of that briefing, the Army representative compared current technologies being used for various types of characterization and remediation work with new technologies being developed. In its paper, "Cleaning Up Defense Installations," CBO summarized new technologies that could reduce the costs of characterizing and rehabilitating contaminated sites.

According to DoD estimates, for example, new technologies for cleaning up metals in contaminated groundwater could reduce costs from as high as \$40 per 1,000 gallons using current chemical precipitation techniques to as low as 10 cents per 1,000 gallons using a new ion-exchange technology. New technologies for treating metals in contaminated soils could reduce costs from as high as \$250 a ton using current technologies that solidify and stabilize materials to as low as \$20 a ton by means of the advanced physical separation techniques used in electrokinetics. DoD has demonstrated that composting, in which naturally occurring microorganisms consume soil contamination, can save half the cost of incinerating the soil. The department has also successfully tested a new technology called bioventing, which uses oxygen for cleaning fuel contamination in soil. Early tests show that bioventing can reduce the cost of treatment by 50 percent or more. DoD also estimates that it might be able to cut the cost of cleaning up buried ordnance by 33 percent using remote removal technology that is now being developed, rather than current manual and machine methods.

New technologies for studying contaminated sites could also achieve significant savings. For example, DoD estimated that a ground sensing system mounted on a vehicle, the Surface Towed Ordnance Locator System, could reduce the costs of locating buried, unexploded ordnance from approximately \$5,000 an acre using current technologies to about \$1,600 an acre. New well-drilling techniques for measuring groundwater contamination could reduce sampling costs from \$280 per well-foot to as low as \$10 per well-foot.

Most of these cost estimates are preliminary and require additional testing and application to confirm their validity. They are based on laboratory and field tests, however, that suggest potential savings of those magnitudes. Information concerning technical performance specifications for new technologies is available from the Department of the Army, U.S. Army Corps of Engineers, Research and Development Directorate. Additional technical information about new technologies under development can be obtained from service and agency components participating in the DoD/National Environmental Technology Demonstration Program; the Naval Facilities Engineering Service Center in Port Hueneme, California; the U.S. Army Environmental Center, Aberdeen Proving Ground, Maryland; the U.S. Air Force Armstrong Laboratory, Tyndall Air Force Base, Florida; and the U.S. Environmental Protection Agency Environmental Monitoring Systems Laboratory, Las Vegas, Nevada. The Department of Energy also conducts research on new remediation technologies through the Office of Technology Development within the Office of Environmental Restoration and Waste Management.

Question 4. Has it always been the case throughout our federal history that the federal government bound itself to more rigid state requirements in terms of its dealings with federal property located within states? Has that always been the law?

Answer: In general, the federal government has taken steps to expand the authority of the states to control pollution, hazardous waste handling and storage, and environmental cleanup that has taken place on federal facilities during the past two decades. Before 1980, the Congress adopted environmental laws, including the Clean Air Act, the Clean Water Act, and the Resource Conservation and Recovery Act (RCRA), that required federal facilities to meet state pollution control standards. The courts, however, found some of those waivers inadequate to override the sovereign immunity of the federal government. In 1978, President Carter responded to the courts' findings by issuing Executive Order 12088--"Federal Compliance With Pollution Control Standards"--in which he pledged that all federal agencies would comply with state pollution control standards.

The Congress gave up federal sovereign immunity affecting cleanup standards when it enacted the Superfund Amendments and Reauthorization Act in 1986. Sections 120 and 121 of the act state that all federal facilities on the National Priorities List are subject to "legally applicable" or "relevant and appropriate" cleanup standards and must meet state cleanup standards when they are more stringent than federal requirements. In addition, section 120 states that federal facilities that are not on the National Priorities List are subject to state laws governing remedial actions, providing any state standard or requirement is likewise applicable to nonfederal facilities.

Finally, the Federal Facility Compliance Act of 1992 amended the RCRA to reaffirm and clarify the federal government's waiver of sovereign immunity in the handling, transporting, and storage of hazardous materials. Under that act, the federal government is obligated to meet substantive or procedural requirements designated or delegated to the states by the legislation.

**GENERAL ACCOUNTING OFFICE RESPONSES
TO QUESTIONS FOR THE RECORD**

RESPONSE TO HNSC READINESS QUESTIONS ON DOD ENVIRONMENTAL PROGRAM

Question 1. What measures can GAO suggest that would facilitate greater interdepartmental cooperation than exists today?

Response: Our work in this area¹ has identified several causes/reasons for the limited cooperation that exists between the agencies concerned with cleanup efforts. First, regulatory agencies have, historically, taken an adversarial oversight approach with DOD installations similar to that taken with the private sector. Second, EPA offices are often located long distances from the installation concerned, thus, regulators are unable to make frequent site visits. Third, rapid turnover of EPA's staff has often meant the same person seldom visited a site more than once. Fourth, the frequency of informal, working meetings between the affected program managers has been limited. As a result, (1) EPA and DOD have been unable to develop the level of communication and trust needed to build good working relationships, (2) EPA officials have not always been able to gain the first-hand knowledge needed to make cleanup decisions, and (3) coordination and decision-making have tended to center on very formal processes that are both time-consuming and costly.

Our work shows that a management approach used at several installations has worked well to address these problems and is one that could be beneficial to other DOD installations. At these installations, EPA and state program managers were physically located closer to the cleanup sites. All three program managers stated that being in close proximity to each other enabled them to meet on a regular basis and to develop a good working relationship. Meetings were also less formal, which allowed the program managers to resolve difficult problems and understand each other's views better. This approach enabled them to deal with and resolve small problems before they became big ones. In addition, the representatives were reasonably autonomous and had the authority to make decisions for their agencies (although they checked with

¹Environmental Cleanup: Too Many High Priority Sites Impede DOD's Program (GAO/NSIAD-94-133, Apr 21, 1994) and Environmental Cleanup: Case Studies of Six High Priority DOD Installations (GAO/NSIAD-95-8, Nov 18, 1994).

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supervisors on more difficult matters). They also had technical experts they could turn to for assistance when needed.

We were told by both DOD and EPA officials that without frequent meetings and a good working relationship, the time to study and clean up installations can be more lengthy and costly. For example, they cited McChord Air Force Base as a case where, at each decision point, the agencies used contractors to prepare the backup data used to formulate each agencies' positions and to present them to the other participants in reports rather than the agencies' officials dealing with each other directly. McChord officials analyzed the time spent preparing and revising documentation submitted to EPA during an approximate 3-year period. During that time, 25 documents were prepared and often included multiple versions incorporating EPA's and the state's comments. Each version of a plan or report usually costs \$20,000 to \$30,000. These reports and other documents required for the remedial investigation/feasibility study had cost \$3.1 million and had taken over 3 years, and yet the study was still not complete.

Question 2. What does GAO mean when it says that DOD has not effectively prioritized its environmental cleanup projects?

Response: At the time we did our work in this area, 126 DOD installations had been designated or proposed for designation as NPL, or Superfund sites. Every one of the 5,800 individual sites on these installations were subject to CERCLA's study and cleanup requirements. However, most of these sites were not large enough or contaminated enough to be properly considered NPL or Superfund sites. According to DOD and EPA officials, many of these would go undetected in the private sector.

A private sector site that scores a 28.5 under EPA's Hazard Ranking System² is subject to being placed on the NPL. However, at each DOD installation (where there may be hundreds of sites), EPA usually scores just four to six of what appear to be the worst sites

²This is a mathematical evaluation methodology that EPA uses to assess sources of contamination, pathways, and receptors (i.e., groundwater, surface water, air, and soil) to determine if a hazardous waste site should be placed on the NPL.

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and combines these site scores to establish the installation's composite score. If the composite score is 28.5 or higher, the entire installation is subject to being placed on the NPL. Thus, many relatively insignificant sites are given high priority status simply because they are located on a military installation with a few badly contaminated sites. In addition, sites on bases to be closed are given priority for cleanup whether or not the sites are among the most dangerous or are to be retained by the government.

We were told that DOD officials believe there are some non-NPL installations that have a large number of individual sites contaminated enough to qualify for the NPL. However, these installations are not listed because EPA lacks the resources to evaluate additional DOD installations. As a result, seriously contaminated sites on non-NPL installations are allowed to worsen while less seriously contaminated sites on NPL installations receive priority access to DOD and EPA resources.

Question 3. Have DOD's efforts to accelerate cleanup helped?

Response: DOD's efforts for both active and closing bases and installations have helped, but GAO believes that problems still need to be addressed. For example, elements of DOD's Fast Track Cleanup program for closing bases need further development, such as establishing performance measures related to cleanup progress.

Question 4. Is DOD still studying too much and cleaning up too little?

Response: DOD reports recent improvement in the balance of study versus cleanup. Some degree of study remains to be done to make sure the right sites are identified and the proper remediation techniques are selected. However, it is important that DOD avoid any unnecessary repetition of studies or studies that go beyond what is needed to make the necessary decisions regarding a site. Our ongoing work is addressing such questions.

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Question 5. Have the problems GAO raised regarding untimely, incomplete, and inaccurate data management been solved?

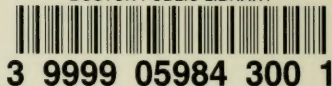
Response: Progress has been made in some areas; however, DOD still lacks the accurate, up-to-date, and complete information system it needs to manage its contaminated site restoration efforts and to support its decision-making processes. Specifically, (1) the Defense Logistics Agency (DLA) and military services need to correct errors in their existing databases; (2) DLA and the services need to ensure that they update DOD's database on a quarterly basis as required; (3) reporting requirements should be modified to include information on the types and amounts of specific contaminants; and (4) the services' systems should be made compatible with DOD's database to enhance communications and simplify rapid updates and information transfers.

Without a solid information system, DOD's ability to develop accurate cost estimates is impaired and its efforts to monitor the progress of site cleanups are made more difficult. In addition, current and accurate information is essential to aid in current DOD initiatives to identify candidates for common cleanup methodologies. For example, during testimony before the Congress on its budget request for fiscal year 1995, DOD suggested that the use of generic remedies for cleanup was a key element in its efforts to achieve faster cleanups and reduce environmental risk. DOD's program guidance states that its restoration management information system is an important tool for use in program management and oversight.

Question 6. What is GAO's general assessment of the services' success in managing the contracting process for cleanup activities, particularly, those efforts intended to reduce cost overruns and eliminate waste and inefficient operating and management practices?

Response: DOD is potentially liable if any of its hazardous waste has not been properly handled and disposed of. Our latest work focused on DOD internal control procedures to ensure that its contractors handle waste properly. Our work³ has shown that (1)

³Hazardous Waste: Improvements Needed in DOD's Contracting System for Disposal of Waste (GAO/NSIAD-91-131, Apr 6, 1991).



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disposal contracts should be structured to require disposal facilities (rather than the waste transporters) to submit tracking manifests directly to the DOD waste generator to provide better assurance that waste was received and properly disposed of, (2) hazardous waste transporters should be prohibited from use of interim storage to facilitate the tracking of hazardous waste to its final disposal, and (3) high priority should be given to audits of hazardous waste disposals to identify RCRA violations and reduce the government's potential liability. We have work underway to address cleanup contract management.

Question 7. What are the major areas where cost reductions or efficiencies may be achieved?

Response: Most of GAO's recommendations in recent reports would improve the efficiency of DOD's environmental program activities; however, not all would necessarily generate cost reductions. Those with the potential to reduce costs involve (1) limiting NPL and BRAC cleanups to those sites warranting funding for reasons associated with human health, the environment, and land transfer decisions, (2) setting policies for cleanup cost sharing, and (3) improving efforts to ensure participation by all potentially responsible parties.



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